

NEWALTA

THE BUSINESS OF
REDISCOVERING RESOURCES
IS OUR UNIQUE PURPOSE



Contents

2	Financial Highlights
4	President's Message
8	Newalta Officers
10	Management's Discussion and Analysis
38	Management and Auditors' Reports
39	Financial Statements
42	Notes to the Consolidated Financial Statements
IBC	Corporate Information

RESOURCE RECOVERY IS THE FUTURE



Ville Ste-Catherine, Québec

The future is now.

Rediscovering resources has been, and will continue to be, the core of our business. We are developing and commercializing new technical applications and expect to add new products in the future to both grow, and further diversify our business.

Over the past 17 years, the nature of our business has evolved and definitions of what is considered “waste” have been transformed. We have added clean technology processes to recover products and to recycle resources from industrial residues. Today, we recover annually approximately \$400 million worth of reusable products that would otherwise go to disposal. We are leading the industry in terms of the scale and diversity of products that we recover, and we see this as a significant growth opportunity in the years ahead. Recycling and recovering waste products makes good business and environmental sense, and helps to preserve precious natural resources for future generations.

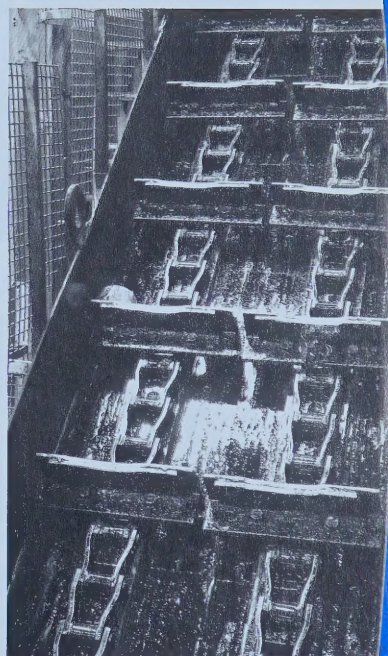
FINANCIAL RESULTS AND HIGHLIGHTS

(\$000s except per share data)	2009	2008	% Increase (Decrease)
Revenue	483,401	597,035	(19)
Net earnings	3,099	58,882	(95)
- per share (\$) – basic	0.07	1.40	(95)
- per share (\$) – diluted	0.07	1.40	(95)
EBITDA ⁽¹⁾	79,921	125,753	(36)
- per share (\$) ⁽¹⁾	1.84	3.00	(39)
Adjusted EBITDA ⁽¹⁾	82,157	125,890	(35)
- per share (\$) ⁽¹⁾	1.89	3.00	(37)
Cash from operations	83,518	128,922	(35)
- per share (\$) ⁽¹⁾	1.92	3.07	(37)
Funds from operations ⁽¹⁾	60,943	98,306	(38)
- per share (\$) ⁽¹⁾	1.40	2.34	(40)
Maintenance capital expenditures ⁽¹⁾	8,589	20,762	(59)
Dividends/Distributions declared	8,141	93,180	(91)
- per share (\$) ⁽¹⁾	0.20	2.22	(91)
Cash distributed	13,233	82,093	(84)
Growth capital expenditures ⁽¹⁾	18,696	104,440	(82)
Weighted average shares outstanding	43,536	41,935	4
Shares outstanding, December 31	48,476	42,400	14

(1) These financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP financial measures are identified and defined throughout the attached Management's Discussion and Analysis.

We emerged from 2009 as a financially and operationally stronger company, despite the recessionary environment. Our results reflect our ability to respond quickly to a rapidly changing economy.

We enter 2010 with improving market conditions, a reduced cost structure, a more agile organization and a strengthened balance sheet.



- Adjusted EBITDA improved from \$30 million in the first half to \$52 million in the second half, as commodity prices strengthened, our markets recovered and cost reductions were realized.
- We generated excess cash after capital expenditures and dividends of \$25.7 million which was used to reduce debt.
- Growth capital expenditures in the year were \$18.7 million, compared to \$104.4 million in 2008.
- In October 2009, we completed a \$46 million equity financing to strengthen our balance sheet further and to prepare us for improved markets in 2010.
- SG&A expense before non-cash stock-based compensation was down 13% compared to 2008.



PRESIDENT'S MESSAGE



Al Cadotte,
President and Chief Executive Officer

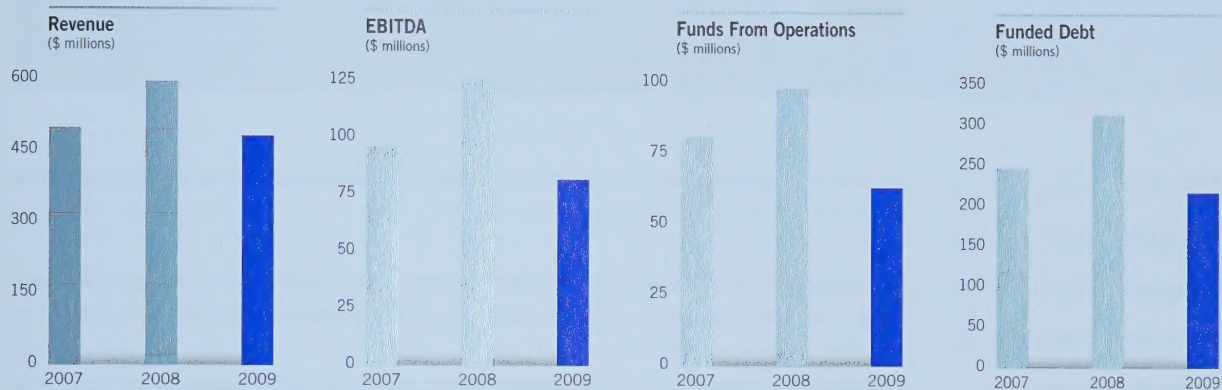
While we have managed successfully through several market cycles over the past 17 years, none was as dramatic as 2009, particularly in the first half of the year. Compared to 2008, Adjusted EBITDA declined \$44 million in 2009 – of which more than \$30 million was in the first half of the year, as the value of our products slumped and the demand for our services declined.

We began the year by converting the company from an income trust to a corporation. This structure best positions us to continue to grow our business and to generate superior returns for our shareholders over the longer term.

Even before the magnitude of the downturn became apparent, we took aggressive action to improve the productivity of our business and to reduce our cost structure, while continuing to advance the development of our key areas for future growth: onsite services and heavy oil operations.

We restricted capital investments, curtailed discretionary expenditures, suspended salary increases and reduced staff by approximately 12 percent to match demand. We also improved our management of accounts receivable and accounts payable. Overall cost reductions were more than \$30 million on an annualized basis.

As a result, after absorbing the recessionary shocks in the first half of the year, our performance rebounded in the second half as commodity prices strengthened, our markets slowly recovered and cost reductions were realized. Despite the weaker economic environment, cash from operating activities more than exceeded capital expenditures and dividends in the year, contributing \$25.7 million to debt reduction. Our success in controlling costs was due to the action taken by our management and to the commitment of the people throughout our organization. We also recovered Letters of Credit posted with government agencies, which reduced our Funded Debt by an additional \$27 million.



In 2009, we continued to improve our safety and environmental performance. Total reportable injury frequency was reduced by 20 percent, property damage incidents decreased by 17 percent, and environmental incidents dropped by 45 percent. I am very proud of our successes in these areas.

In addition, we made considerable progress in advancing our opportunities for growth. In the second quarter, we commissioned the second kiln at Ville Ste-Catherine and, as processed volumes steadily increased, it contributed to improved results in the second half. We also secured new contracts for onsite projects for industrial customers across Canada. These onsite projects and contracts are providing our customers with improved environmental performance while, at the same time, reducing their costs. We are earning our customers' confidence as we deliver value and operate professionally and safely within their facilities.

In October, we completed a \$46 million equity financing to strengthen our balance sheet further and to prepare us for improved markets in 2010. We also attracted many new investors who share our vision for Newalta in the years ahead.

In summary, we managed successfully through a very challenging business environment in 2009 controlling costs, improving efficiency and strengthening our balance sheet. We also revised our policies, procedures and processes across the company to increase overall effectiveness. At the same time, we maintained our ability to respond to improving conditions, we maintained our competitive advantages in





"We made considerable progress in advancing our opportunities for growth."

our markets, and advanced our key areas for future growth. The organization is much more agile today than a year ago, and our cost base has been reduced.

We enter 2010 optimistic about the company's performance in the quarters ahead. We have reorganized our operations into the Facilities and Onsite divisions to allocate our resources to capitalize on opportunities to expand our business and to maximize our bottom-line performance. The value of our products, particularly lead and crude oil, has strengthened and is above the value at this time last year. The demand for our services continues to grow, most notably in Ontario and in drilling-related services in the U.S. and western Canada.

Our capital budget for 2010 is \$87 million, consisting of \$27 million in maintenance and \$60 million in growth capital to expand our business and to set the foundation for a strong 2011.

We have many outstanding opportunities to grow our business through investments in our facilities, expanding our services and our onsite operations. In 2010, we are adding talent in technical development to focus on identifying, evaluating and commercializing processes which are both cost-effective and environmentally superior to current practices. We will search globally for the best technologies to recover and recycle saleable products from industrial residues. While this work will not impact our performance in the short term, it is important to the long-term vision for our company.

We recently announced an agreement to partner with BioteQ, a water-treatment company that applies innovative technologies to solve challenging water treatment problems. Together, we will work to identify waste treatment projects that recover, recycle, or treat industrial waste and manage by-products. This is just the first step as more opportunities are coming. The successful development of new processes



to recover resources for sale, or for direct reuse, will lead to expansion at our fixed facilities, and on our customers' sites.

Two directors of Newalta, Clay Riddell and Felix Pardo, retired in 2009 after more than 18 years serving on our Board. Their knowledge, vision and leadership were instrumental in our success.

I am also pleased to welcome two new directors, Susan Riddell Rose and Tom Ryley, to the Board and I look forward to their contributions in the years ahead.

Our company's financial performance in 2009 may have been disappointing, but there were many significant accomplishments that will contribute to improved results in the future. Our people did a lot of hard work in 2009, which will be evident in the quarters and years ahead. During 2009, we gained new investors in the company who endorse our strategy for the business. We remain committed to delivering superior returns for our shareholders in 2010 and beyond.

Sincerely,

Alan P. Cadotte
President and Chief Executive Officer

"The organization is much more agile today than a year ago, and our cost base has been reduced."

NEWALTA OFFICERS



Pictured (left to right):

Terry Donaleshen
Senior Vice President, Organization Development

Took Whiteley
Senior Vice President, Business Development
and General Counsel

Alan Cadotte
President and Chief Executive Officer

Ronald Sifton
Executive Vice President

Michael Borys
Senior Vice President and Chief Financial Officer



Pictured (left to right):

Jim McClimans
Vice President, Finance

Harry Wells
Vice President, Technical Development

Peter Dugandzic
Executive Vice President

Craig Wilkie
Executive Vice President

Doug Pecharsky
Vice President, Western Onsite

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three and twelve months ended December 31, 2009 and 2008

Following changes in tax rules for specified investment flow-through entities, Newalta Income Fund (the "Fund") undertook steps to convert the Fund's income trust structure into a corporate structure. On December 17, 2008, unitholders of the Fund voted and approved the reorganization by way of a plan of arrangement under the Business Corporations Act (Alberta), into a corporation pursuant to an arrangement agreement dated November 12, 2008 (as amended) between Newalta Inc., Newalta Income Fund, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. (the "Arrangement").

On January 1, 2009, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. were amalgamated to form Newalta Corporation. Prior to the Arrangement, which was effective on December 31, 2008, the consolidated financial statements included the accounts of the Fund and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements were prepared on a continuity of interests basis, which recognizes Newalta Inc. as the successor entity to the Fund. On December 31, 2009, the sole unitholder of Newalta Income Fund approved the wind-up of the fund. Subsequent to year end, on January 1, 2010, Newalta Inc. was amalgamated with its wholly-owned operating subsidiary, Newalta Corporation, to form Newalta Corporation.

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to Newalta Inc., Newalta Income Fund (the "Fund"), and Newalta Corporation (the "Corporation" and together with Newalta Inc., the Fund, and other subsidiaries, "Newalta"), or their management, are intended to identify forward-looking statements. In particular, forward-looking statements included or incorporated by reference in this document include statements with respect to:

- future operating and financial results;
- expected demand for our services;
- business prospects and strategy;
- capital expenditure programs and other expenditures;
- the amount of dividends declared or payable in the future;
- realization of anticipated benefits of acquisitions and growth capital investments;
- our projected cost structure; and
- expectations and implications of changes in legislation.

Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including, without limitation:

- general market conditions of the industries we service;
- strength of the oil and gas industry, including drilling activity;
- fluctuations in commodity prices for oil and lead;
- fluctuations in interest rates and exchange rates;
- supply of waste lead acid batteries as feedstock to support direct lead sales;
- demand for our finished lead products by the battery manufacturing industry;
- our ability to secure future capital to support and develop our business, including the issuance of additional common shares;
- dependence on our senior management team and other operations management personnel with waste industry experience;
- the seasonal nature of our operations;
- success of our growth and acquisition strategies including integration of businesses into our operations and potential liabilities from acquisitions;
- the highly regulated nature of the waste management and environmental services business in which we operate;
- costs associated with operating our landfills and reliance on third party waste volumes;
- the competitive environment of our industry in eastern and western Canada;
- risk of pending and future legal proceedings;
- our ability to attract and retain skilled employees and maintain positive labour union relationships;
- fluctuations in the costs and availability of fuel for our operations;
- open access for new industry entrants and the general unprotected nature of technology used in the waste industry;
- possible volatility of the price of, and the market for, our common shares;
- obtaining insurance for various potential risks and hazards on reasonable financial terms;
- the nature of and market for our debentures; and
- such other risks or factors described from time to time in reports we file with securities regulatory authorities.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Many other factors could also cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements and readers are cautioned that the foregoing list of factors is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Furthermore, the forward-looking statements contained in this document are made as of the date of this document and the forward-looking statements in this document are expressly qualified by this cautionary statement. Unless otherwise required by law, we do not intend, or assume any obligation, to update these forward-looking statements.

Reconciliation of Non-GAAP Measures

This Management's Discussion and Analysis contains references to certain financial measures, including some that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other corporations or entities. These financial measures are identified and defined below:

"Combined divisional net margin" and "net margin" are used by management to analyze divisional operating performance. Combined divisional net margin and net margin as presented are not intended to represent earnings before taxes, nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with GAAP. Combined divisional net margin is calculated from the segmented information contained in the notes to the consolidated financial statements and is defined as revenue less operating and amortization and accretion expenses for both of our operating segments. Combined divisional net margin excludes inter-segment eliminations and unallocated revenue and expenses. Net margin for each of our segments is calculated from the segmented information contained in the notes to the consolidated financial statements and is defined as earnings before taxes with financing and selling, general, and administrative ("SG&A") expenses added back.

(\$000s)	Q4 2009	Q4 2008	2009	2008
Earnings before taxes	3,451	5,616	2,732	50,492
Add back (deduct):				
Selling, general, and administrative ⁽¹⁾	16,603	16,562	56,132	62,129
Finance charges ⁽¹⁾	6,689	6,238	25,364	24,104
Consolidated net margin	26,743	28,416	84,228	136,725
Unallocated net margin ⁽¹⁾	2,754	3,403	12,490	10,825
Combined divisional net margin	29,497	31,819	96,718	147,550

(1) Management does not allocate interest income; selling, general, and administrative; taxes; finance charges; and corporate amortization and accretion expense in the segmented analysis (see Note 21 to the Consolidated Financial Statements).

"EBITDA", "EBITDA per share", "Adjusted EBITDA", and "Adjusted EBITDA per share" are measures of our operating profitability. EBITDA provides an indication of the results generated by our principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. In addition, Adjusted EBITDA provides an indication of the results generated by our principal business activities prior to recognizing non-cash stock-based compensation. Non-cash stock-based compensation, a component of employee remuneration, can vary significantly with changes in the price of our common shares. As such, Adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time. EBITDA and Adjusted EBITDA are derived from the consolidated statements of operations, comprehensive income and retained earnings. EBITDA per share and Adjusted EBITDA per share are derived by dividing EBITDA and Adjusted EBITDA by the basic weighted average number of shares.

They are calculated as follows:

(\$000s)	Q4 2009	Q4 2008	2009	2008
Net earnings (loss)	4,092	9,085	3,099	58,882
Add back (deduct):				
Current income taxes	317	21	945	949
Future income taxes	(958)	(3,490)	(1,312)	(9,339)
Finance charges	6,689	6,238	25,364	24,104
Interest revenue	-	-	-	(80)
Amortization and accretion	14,558	15,746	51,825	51,237
EBITDA	24,698	27,600	79,921	125,753
Add back (deduct):				
Non-cash stock-based compensation	808	30	2,236	137
Adjusted EBITDA	25,506	27,630	82,157	125,890
Weighted average number of shares	46,770	42,266	43,536	41,935
EBITDA per share	0.53	0.65	1.84	3.00
Adjusted EBITDA per share	0.55	0.65	1.89	3.00

“Funds from operations” is used to assist management and investors in analyzing cash flow and leverage. Funds from operations as presented is not intended to represent operating funds from operations or operating profits for the period, nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds from operations is derived from the consolidated statements of cash flows and is calculated as follows:

(\$000s)	Q4 2009	Q4 2008	2009	2008
Cash from operations	19,165	54,764	83,518	128,922
Add back (deduct):				
Changes in non-cash working capital	(298)	(36,778)	(23,599)	(32,647)
Asset retirement costs incurred	318	214	1,024	2,031
Funds from operations	19,185	18,200	60,943	98,306
Weighted average number of shares	46,770	42,266	43,536	41,935
Funds from operations per share	0.41	0.43	1.40	2.34

References to combined divisional net margin, net margin, EBITDA, EBITDA per share, Adjusted EBITDA, Adjusted EBITDA per share and funds from operations throughout this document have the meanings set out above.

The following discussion and analysis should be read in conjunction with (i) the consolidated financial statements of Newalta Inc. and the notes thereto for the year ended December 31, 2009, (ii) the consolidated financial statements of Newalta Inc. and notes thereto and Management's Discussion and Analysis of Newalta Inc. for the year ended December 31, 2008, (iii) the most recently filed Annual Information Form of Newalta Inc. and Newalta Corporation, (iv) the consolidated interim financial statements of Newalta Inc. and the notes thereto and Management's Discussion and Analysis for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009. This information is available at SEDAR (www.sedar.com). Information for the year ended December 31, 2009, along with comparative information for 2008, is provided.

This Management's Discussion and Analysis is dated March 2, 2010 and takes into consideration information available up to that date. Throughout this document, unless otherwise stated, all currency is stated in Canadian dollars, MT is defined as “tonnes” or “metric tons” and references to shares includes trust units prior to the Conversion.

Selected Financial Information

(\$000s except per share data)	2009	2008	2007
Revenue	483,401	597,035	499,864
Net earnings	3,099	58,882	61,189
- per share (\$) – basic	0.07	1.40	1.52
- per share (\$) – diluted	0.07	1.40	1.51
EBITDA ⁽¹⁾	79,921	125,753	96,228
- per share (\$) ⁽¹⁾	1.84	3.00	2.39
Adjusted EBITDA ⁽¹⁾	82,157	125,890	96,429
- per share (\$) ⁽¹⁾	1.89	3.00	2.39
Cash from operations	83,518	128,922	54,058
- per share (\$) ⁽¹⁾	1.92	3.07	1.34
Funds from operations ⁽¹⁾	60,943	98,306	81,147
- per share (\$) ⁽¹⁾	1.40	2.34	2.01
Total Assets	993,730	1,051,910	1,023,481
Senior long-term debt – net of issue costs	188,123	263,251	206,940
Convertible debentures – principal amount	115,000	115,000	115,000
Dividends/Distributions declared	8,141	93,180	90,117
- per share (\$) ⁽¹⁾	0.20	2.22	2.22

(1) These financial measures do not have any standardized meaning prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP financial measures are identified and defined throughout the attached Management's Discussion and Analysis.

2007 Revenue



2008 Revenue



2009 Revenue



Corporate Overview

We emerged from 2009 as a financially and operationally stronger company, despite the recessionary environment. Our results reflect our ability to respond quickly to a rapidly changing economy. Compared to 2008, Adjusted EBITDA decreased \$43.7 million, with 72% of that decline in the first half of 2009. Performance in the first half of the year reflected significantly lower commodity prices compared to 2008, coupled with an overall dramatic decrease in industrial and drilling activity in both Canada and the U.S. In the second half of the year, stronger results were driven by our cost savings initiatives, recovering commodity prices, modest improvements in demand for our services as well as the expansion at the Ville Ste-Catherine ("VSC") facility in Québec. Adjusted EBITDA for the second half of 2009 improved by over 70% over the first half of the year and was down only \$12 million, or 19%, compared to the prior year comparable period, despite activity levels well below the prior year. Cash from operating activities net of capital expenditures and dividends contributed \$25.7 million to Funded Debt reduction in the year, of which, \$21.8 million was generated in the second half of the year.

In Q4 2009, Adjusted EBITDA was down 4% from Q3 2009. Restructuring costs and out of quarter adjustments were \$2.2 million in Q4 2009. Excluding the impact of these items, Adjusted EBITDA was \$27.7 million, reflecting improved market demand and stronger commodity prices. In the East, volumes at the Stoney Creek landfill ("SCL") increased by 90% over Q3 2009, while VSC benefited from higher lead pricing and higher kiln utilization. In the West, seasonal drilling activity improved Drill Site performance while reduced demand for oil recycling products resulted in lower revenue in Q4 compared to Q3. Total combined divisional net margin was relatively flat in Q4 2009 compared to Q3 2009, and down only 7% compared to Q4 2008.

In Q4 2009, Adjusted EBITDA was down 8% over last year. Excluding restructuring costs and out of quarter adjustments in SG&A in Q4 2009, Adjusted EBITDA was equal to last year even though revenues were down \$8 million. Strong performance in the Eastern division from VSC due to higher production and improved lead pricing served to offset lower revenue and net margin in the West. Eastern's share of total revenue and combined divisional net margin was 55% and 46%, respectively, compared to 45% and 35% in Q4 2008. Cost savings in excess of \$8 million were realized in Q4 2009, as compared to Q4 2008.

For the year, revenue, net earnings and Adjusted EBITDA were down 19%, 95% and 35%, respectively. Performance was strongly impacted by the depressed economic environment and lower commodity prices. In the second quarter of 2009, cost saving initiatives were implemented to reduce our cost base consistent with depressed market conditions. We have been successful in realizing more than \$24 million in cost efficiencies over the last three quarters, as compared to the same period in 2008. As a result, quarterly Adjusted EBITDA has grown steadily since Q1 2009, despite weak activity levels compared to last year. The impact of commodity prices on revenue and Adjusted EBITDA lessened as the year progressed and commodity prices strengthened. Overall, 53% of the decline in Adjusted EBITDA in 2009 is attributable to the changes in commodity prices. Excluding the impact of commodity prices, revenue was down 15% and Adjusted EBITDA decreased by only 16%. Net earnings were impacted by the same factors as EBITDA with the exception that 2008 earnings included higher future income tax recoveries.



	Q4 2008	Impact of change in commodity prices ⁽¹⁾	Impact of market and other changes	Q4 2009
Revenue	145,341	7,228	(15,261)	137,308
Expenses				
Operating	101,179	3,686	(8,858)	96,007
Selling, general and administrative	16,562	-	41	16,603
Finance charges	6,238	-	451	6,689
Amortization and accretion	15,746	-	(1,188)	14,558
Net earnings (loss)	9,085	3,542	(8,535)	4,092
EBITDA	27,600	3,542	(6,444)	24,698

	2008	Impact of change in commodity prices ⁽¹⁾	Impact of market and other changes	2009
Revenue	597,035	(26,041)	(87,593)	483,401
Expenses				
Operating	409,073	(2,909)	(58,816)	347,348
Selling, general and administrative	62,129	-	(5,997)	56,132
Finance charges	24,104	-	1,260	25,364
Amortization and accretion	51,237	-	588	51,825
Net earnings (loss)	58,882	(23,132)	(32,651)	3,099
EBITDA	125,753	(23,132)	(22,700)	79,921

(1) The change in commodity prices is defined as the change in the price received for recovered crude oil and the change in the price of lead received, in each instance, in Canadian dollars.

Total capital expenditures for the year were \$27.3 million, consistent with our expectations. In light of the economic downturn in 2009, we managed capital expenditures in line with customer activity. Maintenance expenditures were \$8.6 million while growth capital expenditures totalled \$18.7 million. Growth capital in the full year related primarily to the commissioning of the second kiln at VSC and equipment upgrades and process improvements within our facilities and onsite services throughout Newalta.

During the fourth quarter, we completed three key initiatives to strengthen our balance sheet and increase financial flexibility. First, our Credit Facility was renewed and extended to October 12, 2011 and, at the election of management, the principal amount was reduced from \$375 million to \$350 million. Second, we completed an equity financing for net proceeds of \$43.8 million through the issuance of 6.0 million shares on October 27, 2009. Lastly, letters of credit totalling \$25 million were returned from the Alberta Energy Resources Conservation Board (ERCB).

In early January 2010, we announced an agreement with BioteQ Environmental Technologies Inc. ("BioteQ")(TSX:BQE). Newalta and BioteQ will work together to identify waste treatment projects that recover, recycle, or treat industrial waste and manage related by-products. In conjunction with this agreement, we acquired 3.6 million common shares and warrants, at a price of \$1.10 per share for a total purchase price of \$4 million, representing 5% of the issued and outstanding common shares of BioteQ.

Outlook

We have identified areas of strategic focus which we believe will provide attractive returns for our shareholders in the years ahead. Effective January 1, 2010, we reorganized our divisions to include Facilities and Onsite in order to more effectively manage our operations and to execute our strategic plan. In our Facilities Division, we will focus on extending services and maximizing profitability within our existing facilities. In Onsite, we will concentrate on managing our resources more effectively on a national scale to better serve our customers' complex environmental needs. Onsite services now represent 32% of consolidated revenue. Our focus for the longer term will be to search globally for innovative ways of applying new technologies to provide solutions for existing customers as well as new markets. The recently announced agreement with BioteQ is a first step in this initiative.

We anticipate higher commodity prices and improvements in drilling and the economy to positively contribute to performance in 2010. Crude oil and lead prices are trending higher in Q1 2010 compared to Q4 2009, and well above Q1 2009. Performance for facilities in both western and eastern Canada is also expected to be stronger than Q1 2009. We anticipate seasonal increases to be higher than last year as we begin to see modest recovery in the oil and gas industry. Equipment-in-use within Drill Site is expected to strengthen reflecting this recovery. Waste receipts for the Stoney Creek landfill are anticipated to be in line with historical levels. In Q1 2010, we expect an increase in routine maintenance down time at VSC over Q4 2009; however, VSC performance will be positively impacted by increased production from the second kiln, when compared to Q1 2009.

We expect that our cost containment program implemented in Q2 2009 will continue to yield savings into the first quarter of 2010. For the balance of 2010, we will manage our cost base consistent with market demand.

Capital expenditures in 2010 are budgeted at \$87 million, comprised of growth capital expenditures of \$60 million, and maintenance capital of \$27 million. Capital expenditures will be funded from funds from operations, with approximately 40% expected to be spent in the first half of 2010.

Initiatives completed in 2009 towards maximizing financial flexibility resulted in a stronger financial position as we enter 2010. Our strengthened balance sheet provides us with the financial capacity to capitalize on growth initiatives as our markets recover and demand for our services strengthens.

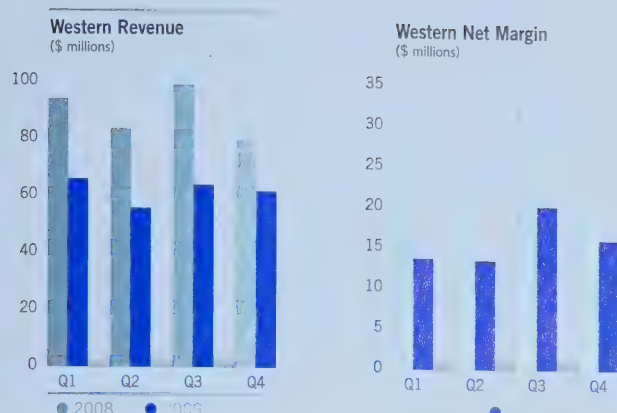
Results of Operations – Western Division

Overview

Western operates more than 50 facilities with more than 725 people in British Columbia, Alberta, Saskatchewan, Texas and Wyoming. In 2009, Western was organized into the Facilities, Heavy Oil and Drill Site business units.

Western's performance is affected by the following factors:

- fluctuation in the price of crude oil
- state of the oil and gas industry in western Canada
- natural gas drilling activity
- the amount of waste generated by producers
- fluctuation in the U.S./Canadian dollar exchange rate
- the strength of other industries in western Canada, including: construction, forestry, mining, petrochemical, pulp and paper, refining, and transportation service industries



The business units contributed the following to division revenue:

	Q4 2009	Q4 2008	2009	2008
Facilities	69%	72%	71%	73%
Heavy Oil	23%	15%	23%	18%
Drill Site	8%	13%	6%	9%

The following table compares Western's results for the periods indicated:

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Revenue – external	62,125	79,645	(22)	248,094	356,146	(30)
Revenue – internal	295	250	18	1,203	919	31
Operating costs	40,422	53,535	(24)	163,675	229,423	(29)
Amortization and accretion	5,931	5,545	7	22,420	21,614	4
Net margin	16,067	20,815	(23)	63,202	106,028	(40)
Net margin as % of revenue	26%	26%	-	25%	30%	(17)
Maintenance capital	524	6,163	(91)	2,731	12,342	(78)
Growth capital ⁽¹⁾	4,042	20,512	(80)	7,660	51,456	(85)
Assets employed ⁽²⁾				455,955	470,121	(3)

(1) Growth capital does not include acquisitions.

(2) "Assets employed" is provided to assist management and investors in determining the effectiveness of the use of the assets at a divisional level. Assets employed is the sum of capital assets, intangible assets and goodwill allocated to each division.

For the full year versus the prior year:

- revenue decreased by 30%
- net margin excluding the impact of commodity and base oil prices decreased by 23%
- net margin as a percent of revenue decreased from 30% to 25%

Compared to Q4 2008, Western's revenue and net margin decreased by 22% and 23%, respectively, primarily due to activity levels well below 2008 and lower crude oil recovered to our account. Wells drilled in Q4 2009 decreased by 47% over Q4 2008. This decline in activity resulted in lower drill site equipment utilization, decreased waste processing and water disposal volumes as well as reduced demand for finished products from oil recycling. Higher crude oil prices and increased revenue from Heavy Oil's onsite services served to partially offset the decline. Net margin as a percentage of revenue remained flat compared to Q4 2008, reflecting the impact of cost savings initiatives carried out throughout the year.

2009 net margin in the Western division mirrored the weak economic activity in the western region. With a 51% decline in wells drilled in 2009 and depressed crude oil prices for the first nine months of the year, revenue from all business units within this segment were down. The total crude oil recovered to our account in 2009 decreased from 407,000 bbls in 2008 to 375,000 bbls. Excluding the impact of commodity and base oil prices, revenue and net margin were down 25% and 23%, respectively.

Facilities

The Facilities business unit is integral to our operations, providing the operational expertise and management capacity to support key business initiatives. Facilities revenue is primarily generated from:

- the processing and disposal of industrial and oilfield-generated wastes, including collection, treatment, water disposal, clean oil terminalling, custom treating, and landfilling
- sale of recovered crude oil for our account
- oil recycling, including the collection and processing of waste lube oils and the sale of finished products
- onsite service in western Canada, excluding services provided by Heavy Oil
- environmental services comprised of environmental projects and drilling waste management services

Seasonal increases in drilling activity in Q4 2009 resulted in a 30% increase in waste processing volume over Q3 2009, which helped to offset seasonal decreases in oil recycling services and industrial onsite. Overall, Q4 2009 Facilities revenue decreased 7% compared to Q3 2009.

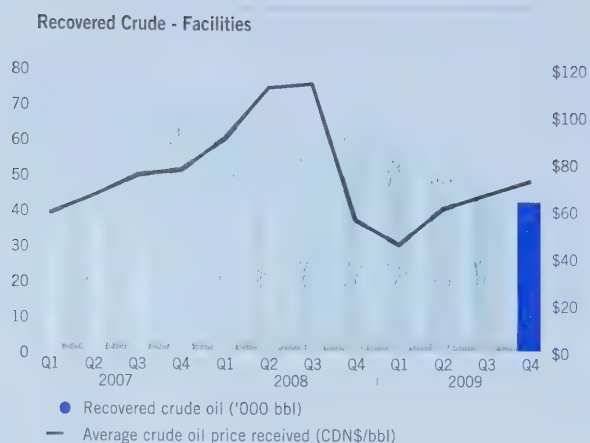
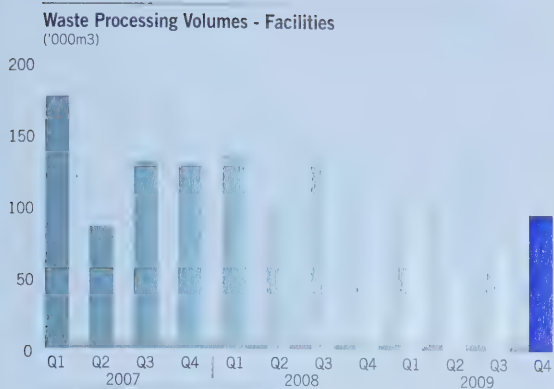
Drilling activity in Q4 2009 remained well below the same period in 2008. Year-over-year, Q4 2009 Facilities revenue decreased by 26% due to lower activity levels. Despite a 31% increase in crude oil prices received compared to Q4 2008, lower drilling activity resulted in weaker waste processing and water disposal volumes by 21% and 27%, respectively. Reduced demand for finished products and a 48% decrease in base oil pricing drove lower oil recycling revenue.

For the year, significantly lower activity levels in western Canada as well as lower crude oil prices resulted in a 33% decrease in revenue. Waste processing volumes were down 34% and the total amount of crude oil recovered to Newalta's account was down by 18% for the year in 2009 compared to 2008. In addition, revenue from our oil recycling business decreased by 29% due to reduced demand for finished products and lower base oil prices.

	Q4 2009	Q4 2008	% change	2009	2008	% change
Waste processing volumes ('000 m ³)	96	121	(21)	324	489	(34)
Recovered crude oil ('000 bbl) ⁽¹⁾	42	61	(31)	190	233	(18)
Average crude oil price received (CDN\$/bbl)	72	55	31	60	91	(34)
Recovered crude oil sales (\$ millions)	3.0	3.4	(12)	11.3	21.3	(47)
Edmonton par price (CDN\$/bbl) ⁽²⁾	76	66	15	66	103	(36)

(1) Represents the total crude oil recovered and sold for our account.

(2) Edmonton par is an industry benchmark for conventional crude oil.



Heavy Oil

Our heavy oil services business began 15 years ago with facilities at Hughenden and Elk Point, Alberta. Using the centrifugation experience gained in processing heavy oil waste streams, in 2005, we launched a new onsite service for customers in the heavy oil market. This business has evolved from processing heavy oil in our facility network to operating equipment on customers' sites. Leveraging our facilities as staging areas, we deliver a broad range of specialized services at numerous customer sites under short and long-term arrangements.

Heavy Oil business unit revenue is generated from three main areas:

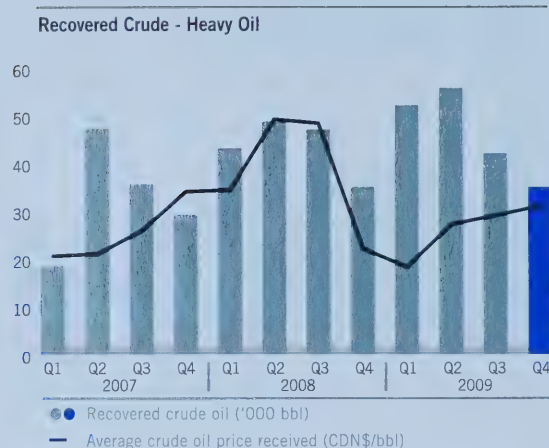
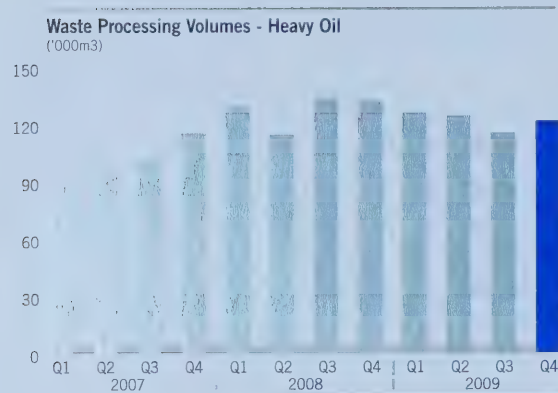
- specialized onsite services under short and long-term arrangements
- processing and disposal of oilfield-generated wastes, including water disposal, and landfilling
- sale of recovered crude oil for our account

Compared to Q4 2008, Heavy Oil revenue increased by 23% due to higher revenue from onsite services coupled with a higher average price for recovered crude oil to our account. For the full year 2009 compared to 2008, revenue decreased by \$5.1 million, or 8%, largely attributable to a \$4.2 million decline in recovered crude oil sales from lower average crude oil prices.

	Q4 2009	Q4 2008	% change	2009	2008	% change
Waste processing volumes (‘000 m ³)	122	132	(8)	487	509	(4)
Recovered crude oil (‘000 bbl) ⁽¹⁾	35	35	-	185	174	6
Average crude oil price received (CDN\$/bbl)	62	44	41	52	80	(35)
Recovered crude oil sales (\$ millions)	2.2	1.5	47	9.6	13.8	(30)
Bow River Hardisty (CDN\$/bbl) ⁽²⁾	71	52	37	61	84	(27)

(1) Represents the total crude oil recovered and sold for our account.

(2) Bow River Hardisty is an industry benchmark for heavy crude oil.



Drill Site

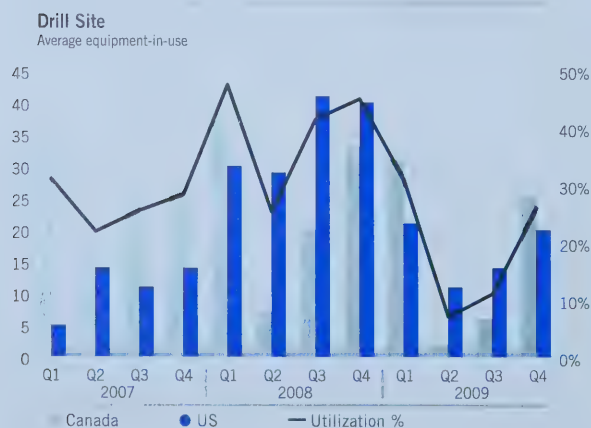
Drill Site business unit revenue is generated primarily from the supply and operation of drill site processing equipment, including equipment for solids control and drill cuttings management. In 2009, Drill Site contributed 6% of divisional revenue or 3% of consolidated revenue.

In 2009, Drill Site revenue for both the U.S. and Canada decreased as natural gas drilling was depressed. Although revenue for the year declined by 51% from 2008, Q4 revenue increased by 104% over Q3 2009. In Q4 2009, average equipment-in-use was up 125% compared to Q3 2009, but remained well below 2008 levels.

The table below reflects the changes in average drill site equipment-in-use and utilization:

	Q4 2009	Q4 2008	% change	2009	2008	% change
Average equipment-in-use⁽¹⁾						
Canada	25	33	(24)	16	24	(33)
U.S.	20	40	(50)	17	35	(51)
	45	73	(38)	33	59	(44)
Average equipment available	176	162	9	175	148	18
Utilization	26%	45%	(42)	19%	40%	(53)

(1) "Average equipment in use" is calculated by taking the product of the total amount of average processing equipment and the utilization rate for the period. Average equipment available is adjusted by 10% for maintenance and transportation. Maximum utilization of 100% represents 90% of the total number of processing days.



Results of Operations – Eastern Division

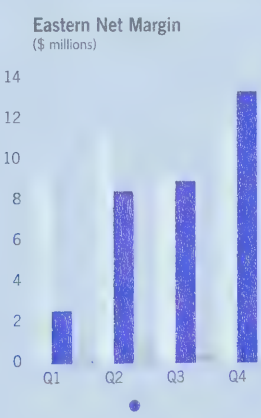
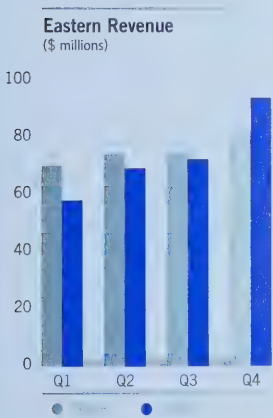
Overview

Eastern provides industrial waste management, recycling and other environmental services to markets located in eastern Canada through our integrated network of 30 facilities with more than 700 employees. This network has two business units, Québec/Atlantic and Ontario, and features Canada’s largest lead-acid battery recycling facility with two long body kilns, located in Ville Ste-Catherine, Québec (“VSC”) with a potential combined annual kiln capacity of approximately 80,000MT. Current production levels fall below kiln potential capacity and are consistent with market demand. In the event of sustained increases in market demand for lead and the availability of adequate feedstock supplies, further capital investment would be required to attain full potential production. The network also includes an engineered non-hazardous solid waste landfill located in Stoney Creek, Ontario (“SCL”) with an annual permitted capacity of 750,000 MT of waste per year and, based on current volumes, has an estimated remaining life of 10 years. The business units contributed the following to division revenue:

	Q4 2009	Q4 2008	2009	2008
Québec/Atlantic	75%	66%	74%	68%
Ontario	25%	34%	26%	32%

Eastern’s performance is affected by the following factors:

- fluctuations in the LME trading price of lead
- supply and demand in the North American battery manufacturing industry
- fluctuation in the U.S./Canadian dollar exchange rate
- market conditions in eastern Canada and bordering U.S. states, including: automotive, construction, forestry, manufacturing, mining, oil and gas, petrochemical, pulp and paper, refining, steel, and transportation service industries



The following table compares Eastern's results for the periods indicated:

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Revenue – external	75,183	65,696	14	235,307	240,809	(2)
Operating costs	55,880	47,894	17	184,876	180,569	2
Amortization and accretion	5,873	6,798	(14)	16,915	18,718	(10)
Net margin	13,430	11,004	22	33,516	41,522	(19)
Net margin as % of revenue	18%	17%	6	14%	17%	(18)
Maintenance capital	2,777	2,266	23	5,659	8,312	(32)
Growth capital ⁽¹⁾	1,408	12,993	(89)	7,919	36,036	(78)
Assets employed ⁽²⁾				349,107	351,617	(1)

(1) Growth capital does not include acquisitions.

(2) "Assets employed" is provided to assist management and investors in determining the effectiveness of the use of the assets at a divisional level. Assets employed is the sum of capital assets, intangible assets and goodwill allocated to each division.

For the full year versus the prior year:

- revenue remained relatively flat with a decrease of 2%
- net margin decreased 19%
- net margin as a percent of revenue decreased from 17% to 14%

In Q4 2009, net margin increased by 22% over Q4 2008 due to record performance from VSC and solid results in the Atlantic region. Revenue at SCL was lower due to reduced event-based business in the fourth quarter of 2009 compared to the same period last year.

Eastern's net margin was impacted by weak economic activity and lower average lead prices in 2009. However, performance improved significantly throughout 2009 due to a variety of factors, including the implementation of cost saving measures in Q2 2009. Performance at VSC was positively impacted by the commissioning of the second kiln in June 2009 and improved lead prices in the second half of 2009. SCL volumes improved in the second half of 2009 with Q4 volumes in line with historic norms, but remained lower than 2008. Atlantic's results increased as a result of cost saving initiatives and continued growth in our onsite services.

Québec/Atlantic

The Québec/Atlantic Canada business unit revenue is derived from:

- VSC, a lead-acid battery recycling facility in Québec
- waste treatment and transfer facilities that process, consolidate, and bulk hazardous waste
- onsite services, including a fleet of specialized vehicles and equipment for waste transport and onsite processing

Revenue in Q4 2009 grew by 30% over Q3 2009 as a result of higher sales at VSC and steady performance from fixed facilities and onsite services. The average lagged LME lead price rose 29% in Q4 2009 over Q3 2009 while lead sold in Q4 2009 increased 36% compared to Q3 2009. The combined operating days for both kilns increased to 164 days in Q4 2009 compared to 126 days in Q3 2009. Down time in Q3 and Q4 related to regularly scheduled maintenance which occurs at the end of December and into the first week of January and in July. Short outages may be required for maintenance from time to time during other periods in the year.

Revenue in Q4 2009 compared to the same period in 2008 was 30% higher due primarily to higher sales at VSC. Performance at VSC was impacted by both higher lead prices and increased sales volumes as a result of additional production from the second kiln.

For the full year 2009, despite lower average lead prices, Québec/Atlantic revenue grew 7% from the added capacity at VSC in the second half and sustained demand for onsite services in both Québec and Atlantic Canada. Performance has improved notably from Q1 2009 as a result of the successful start-up of the second kiln and cost control measures implemented in the second quarter of 2009. Based on the operation of two kilns, our objective is to maintain a 50/50 split between direct sales and tolling. Tolling arrangements generate revenue from a processing fee which is generally fixed, reducing our exposure to fluctuations in lead prices.

The table below highlights the lead sold and average price.

	Q4 2009	Q4 2008	% change	2009	2008	% change
Lead sold ('000 MT) ⁽¹⁾	19.7	12.6	56	62.6	46.3	35
Average price – direct sales (\$/MT) ⁽²⁾	2,551	2,001	27	1,999	2,480	(19)
Average lagged LME price (U.S.\$/MT) ⁽³⁾	2,251	1,547	46	1,605	2,218	(28)

(1) 2009 includes 2,600 MT sold to the LME in Q1 2009 that relates to production during the commissioning phase of Klin 2.

(2) Average price received means all direct sales of finished products, including finished products that are alloyed to customer specifications.

(3) Average lagged LME price is based on a one-month lag consistent with our pricing structure.

Excluding VSC, Québec/Atlantic Canada revenue in 2009 remained flat despite a weaker economy. Atlantic Canada revenue contributed positive growth of 7% mainly attributable to onsite services related to the oil & gas industry in the region, reflecting our ability to continue to grow our business in the more challenging environment.

Ontario

The Ontario business unit revenue is derived from:

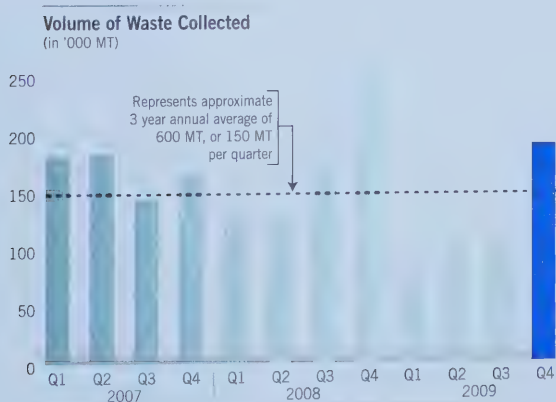
- SCL, an engineered non-hazardous solid waste landfill
- waste treatment and transfer fixed facilities that process, consolidate and bulk hazardous waste
- onsite services, including a fleet of specialized vehicles and equipment for emergency response, waste transport and onsite processing

Ontario performance continued to improve in Q4 2009 compared to Q3 2009 as revenue grew 30%. Waste receipts at SCL in Q4 were well above the three year quarterly average. Growth in our fixed facilities and industrial onsite services also contributed to higher revenue.

Year-over-year, the effects of weak industrial activity persisted in Ontario with revenue down 16% compared to Q4 2008. The result was lower activity at SCL and our fixed facilities which was partially offset by a 76% increase in onsite revenue.

For the full year compared to 2008, performance was impacted by the steep decline in the regional economy. However, performance in Ontario improved steadily throughout 2009 due to cost saving measures implemented in the second quarter of 2009 and higher tonnage at SCL in the second half of the year. Landfill volumes in Q4 2009 were well above the three year quarterly average and were the second highest in the last three years.

	2009	2008	% change
Landfill volume ('000 MT)	477.2	654.7	(27)



Corporate and Other

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Selling, general and administrative expenses ("SG&A")	16,603	16,562	-	56,132	62,129	(10)
Less non-cash stock-based compensation	808	30	2,593	2,236	137	1,532
SG&A before non-cash stock-based compensation	15,795	16,532	(4)	53,896	61,992	(13)
SG&A before non-cash stock-based compensation as a % of revenue	11.5%	11.4%	1	11.1%	10.4%	7

SG&A before non-cash stock-based compensation for Q4 2009 was 4% lower than Q4 2008. SG&A for Q4 2009 included the realization of out of quarter rent expense for space under construction. For the full year, SG&A before non-cash stock-based compensation was down 13% compared to 2008 reflecting the cost saving initiatives implemented in the year. Our objective in 2010 is to ensure SG&A before non-cash stock based compensation remains at or below 10% of revenue on an annual basis. Q1 2010 SG&A before non-cash stock-based compensation is expected to be at or below \$15.0 million, 5% lower than Q4 2009.

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Amortization and accretion	14,558	15,746	(8)	51,825	51,237	1
As a % of revenue	10.6%	10.8%	(2)	10.7%	8.6%	24

Amortization and accretion in Q4 2009 compared to Q4 2008, decreased due to lower depreciation for assets amortized on a unit of production basis with lower utilization. On a year-to-date basis, amortization and accretion was flat. Lower amortization for assets on a unit of production basis as a result of lower utilization was offset by increased amortization from the growth in our capital asset base and the net loss on disposal of assets. The net loss on the disposal of assets for the quarter was \$0.5 million and year-to-date was \$1.6 million. The loss on disposal was added to amortization and accretion.

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Bank fees and interest	4,353	3,928	11	16,059	14,900	8
Convertible debentures interest and accretion of issue costs	2,336	2,310	1	9,305	9,204	1
Finance charges	6,689	6,238	7	25,364	24,104	5

Finance charges increased in Q4 2009 and in the full year primarily due to higher credit facility fees. Finance charges associated with the Debentures include an annual coupon rate of 7%, the accretion of issue costs and discount on the debt portion of the debentures. See "Liquidity and Capital Resources" in this MD&A for discussion of our long-term borrowings.

(\$000s)	Q4 2009	Q4 2008	% change	2009	2008	% change
Current tax	317	21	1,410	945	949	-
Future income tax	(958)	(3,490)	(73)	(1,312)	(9,339)	(86)
Provision for (recovery of) income taxes	(641)	(3,469)	(82)	(367)	(8,390)	(96)

Future income tax recoveries in the year resulted from the reduction of future income tax rates and a one-time increase in the value of tax assets following the wind-up of the Fund on December 31, 2009. Future income tax recoveries in 2008 related to the build up of tax losses generated under the income trust structure. To date, we have generated approximately \$178 million of tax loss carryforwards. Other than provincial capital taxes and U.S. state and federal income taxes, we do not anticipate paying significant income tax for at least three years. See "Critical Accounting Estimates – Income Taxes" in this MD&A for further discussion.

Liquidity and Capital Resources

The term liquidity refers to the speed with which a company's assets can be converted into cash, as well as cash on hand. Our liquidity risk may arise from general day-to-day cash requirements, and in the management of our assets, liabilities and capital resources. Liquidity risk is managed against our financial leverage to meet obligations and commitments in a balanced manner. For further information on our liquidity risk management, please refer to Note 20 to the Consolidated Financial Statements.

Our debt capital structure is as follows:

(\$000s)		December 31, 2009	December 31, 2008
Use of Credit Facility			
Amount drawn on Credit Facility ⁽¹⁾		195,199	264,687
Letters of credit		22,137	49,249
Funded debt	A	217,336	313,936
Unused Credit Facility capacity ⁽²⁾		132,664	111,064
Debentures	B	115,000	115,000
Total Debt	=A+B	332,336	428,936

(1) Issue costs were \$3.2 million in 2009 and \$1.4 million in 2008. See Note 8 to the Consolidated Financial Statements. The net senior long-term debt at December 31, 2009 was \$188.1 million.

(2) The principal amount of the Credit Facility was reduced, at the election of management, from \$425 million to \$375 million on April 22, 2009 and then to \$350 million on October 9, 2009.

In 2009, notwithstanding the \$43.7 million year-over-year reduction in Adjusted EBITDA, Funded Debt decreased by \$96.6 million. Despite the weaker economic environment, cash from operating activities more than exceeded capital expenditures and dividends in the year, contributing \$25.7 million to Funded Debt reduction. In addition, \$27.1 million in letters of credit were returned in 2009 and in October, we raised \$43.8 million in net proceeds through the issuance of approximately 6.0 million shares, thus reducing Funded Debt.

Our working capital at December 31, 2009 was \$31 million compared with \$40 million at December 31, 2008. This improvement highlights the degree of progress over the last 12 months by addressing the following key areas:

- business process initiatives to improve the timeliness and accuracy of invoices
- improved collection processes
- strengthened credit risk management

For further information on credit risk management, please refer to Note 18 to the Consolidated Financial Statements.

As a result of these initiatives, notwithstanding a more challenging economic environment, days' sales outstanding in receivables continued to improve over the prior year with accounts over 90 days decreasing from \$6.5 million at December 31, 2008 to \$0.7 million at December 31, 2009.

At current activity levels, working capital of \$31 million is expected to be sufficient to meet our ongoing commitments and operational requirements of the business. We will continue to manage working capital in order to protect and maintain improvements made over the last 12 months.

The Current Ratio is defined as the ratio of total current assets to total current liabilities. As a result of the ongoing process improvements in the management and collection of receivables, as well as the management and payment of payables, this ratio remained flat at 1.34 times at December 31, 2009 as compared to December 31, 2008. This ratio, at December 31, 2009, exceeds our bank covenant minimum requirement of 1.10:1.

Sources of Cash

Our liquidity needs can be sourced in several ways including: funds from operations, borrowings against our Credit Facility, new debt instruments, the issuance of securities from treasury, return of letters of credit or replacement of letters of credit with other types of financial security, proceeds from the sale of assets and adjustments to dividends paid to shareholders.

Credit Facility

In April, we elected to reduce the available credit from \$425 million to \$375 million and amend the Funded Debt to EBITDA and Current Ratio covenant restrictions from 3:00:1 to 3.50:1 for the remainder of 2009 and 1.20:1 to 1.10:1, respectively. In October, we renewed our Credit Facility with our Canadian lending syndicate. The terms of the Credit Facility were amended by extending the maturity to October 12, 2011, and, in anticipation of the return of the letters of credit, we elected to reduce the principal amount to \$350 million from \$375 million. The extension of the Credit Facility and reduction in the principal amount are in keeping with our focus on tightly managing costs and the routine management of our financial structure. The Credit Facility is available to fund growth capital expenditures and for general corporate purposes, as well as to provide letters of credit to third parties for financial security up to a maximum amount of \$60.0 million. The aggregate dollar amount of outstanding letters of credit is not categorized in the financial statements as long-term debt; however, the issued letters of credit reduce the amount available under the Credit Facility and are included in the definition of Funded Debt for covenant purposes.

At December 31, 2009, \$22.1 million of letters of credit were issued to various environmental regulatory authorities, and were reduced by \$27.1 million from December 31, 2008. Approximately \$25 million in letters of credit were returned following amendments to the Alberta Energy Statutes Act. In addition, letters of credit totalling \$2.2 million associated with certain facilities in Ontario were replaced with performance bonds in the third quarter.

Under the Credit Facility agreement, surety bonds (including performance and bid bonds) to a maximum of \$125 million are excluded from the definition of Funded Debt. As at December 31, 2009, surety bonds totalled \$20.1 million.

Financial performance relative to the financial ratio covenants⁽¹⁾ under the Credit Facility is reflected in the table below:

	December 31, 2009	Threshold
Current Ratio ⁽²⁾	1.34:1	1.10:1 minimum
Funded Debt ⁽³⁾ to EBITDA ⁽⁴⁾⁽⁵⁾	2.60:1	3.50:1 maximum
Fixed Charge Coverage ⁽⁶⁾	2.24:1	1.00:1 minimum

(1) We are restricted from declaring dividends if we are in breach of the covenants under our Credit Facility.

(2) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt and capital leases outstanding, if any).

(3) Funded Debt is a non-GAAP measure, the closest measure of which is long-term senior debt. Funded Debt is generally defined as long-term debt and capital leases including any current portion thereof but excluding future income taxes and future site restoration costs. Funded Debt is calculated by adding the senior long-term debt to the amount of letters of credit outstanding at the reporting date. In calculating Funded Debt, Letters of Credit returned after the end of a fiscal quarter but prior to the date that is 45 days following the end of the first, second or third interim period (90 days following the end of the annual period) are excluded.

(4) EBITDA is a non-GAAP measure, the closest measure of which is net earnings. For the purpose of calculating the covenant, EBITDA is defined as the trailing twelve-months consolidated net income for Newalta before the deduction of interest, taxes, depreciation and amortization, and non-cash items (such as non-cash stock-based compensation and gains or losses on asset dispositions). Additionally, EBITDA is normalized for any acquisitions completed during that time frame and excludes any dispositions incurred as if they had occurred at the beginning of the trailing twelve-months.

(5) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing twelve-months. On April 22, 2009, the Funded Debt to EBITDA covenant restriction under the Credit Facility was amended from 3.00:1 to 3.50:1 for the remainder of 2009. The ratio will be 3.00:1 commencing Q1 2010.

(6) Fixed Charge Coverage Ratio means, based on the trailing twelve month period, EBITDA less unfinanced capital expenditures and cash taxes to the sum of the aggregate of principal payments (including amounts under capital leases, if any), interest (excluding accretion for the convertible debentures), dividends paid for such period, other than cash payments in respect of a dividend reinvestment plan, if any. Unlike the Funded Debt to EBITDA ratio, the Fixed Charge Coverage ratio trailing twelve month EBITDA is not normalized for acquisitions or dispositions.

Our Funded Debt was \$217.3 million for Q4 2009, resulting in a Funded Debt to EBITDA ratio of 2.60:1. On a year-to-date basis, we focused on reducing Funded Debt through the following initiatives:

- restricted capital spending in 2009
- reduced expenses with the implementation of our cost control program, including: staff reductions, hiring restrictions, postponement of salary increases and restrictions on travel and discretionary expenses, and the suspension of our matching contributions to our Employee Savings Plan, which was reinstated on January 1, 2010
- improved the management of working capital
- sold redundant, idle, or non-core assets
- recovery of outstanding letters of credit
- completed equity financing

Our actions will continue to have a positive impact on our debt position and will continue to strengthen our balance sheet as the economy recovers. We remain confident that we will be able to manage within our covenants throughout 2010.

Equity Issuance

On October 27, 2009, we closed an equity financing with the issuance of 6,037,500 shares at a price of \$7.65 per share for gross proceeds of \$46.2 million (net proceeds of \$43.8 million) which were used to reduce indebtedness.

Debentures

The Debentures have a maturity date of November 30, 2012 and bear interest at a rate of 7.0% payable semi-annually in arrears on May 31 and November 30 each year. Each \$1,000 debenture is convertible into 43.4783 shares, at a conversion price of \$23.00 per share, at any time at the option of the holders of the Debentures. The Debentures are not included in calculating financial covenants in the Credit Facility.

Upon maturity or redemption of the Debentures, we may pay the outstanding principal of the Debentures in cash or may elect to satisfy our obligations to repay all or a portion of the principal amount of the Debentures, which have matured or been redeemed, by issuing and delivering that number of shares obtained by dividing the aggregate amount of principal of the Debentures which have matured or redeemed by 95% of the current market price. We may also elect, subject to regulatory approval, from time to time, to satisfy our obligation to pay all or any part of the interest on the Debentures, on the date interest is payable under the Debenture Indenture, by delivering a sufficient number of shares to the debenture trustee to satisfy all or any part, as the case may be, of the interest obligation.

The Debentures are redeemable by Newalta at a price of \$1,000 per Debenture after November 30, 2010 and on or before November 30, 2011 provided that the current market price of our shares on the date on which the notice of redemption is given is not less than \$28.75 (being 25% of the Conversion Price). After November 30, 2011, debentures are redeemable at a price equal to \$1,000 per Debenture. In all cases, consideration will include accrued and unpaid interest, if applicable. Current market price is defined as the volume weighted average trading price of the shares on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on the fifth trading day prior to the date of determination. The volume weighted average trading price is determined by dividing the aggregate sale price of all shares sold on the TSX during the 20 consecutive trading days by the total number of shares so sold.

There were no redemptions of the Debentures in 2009.

Uses of Cash

Our primary uses of funds include maintenance and growth capital expenditures as well as acquisitions, payment of dividends, operating and SG&A expenses, and the repayment of debt.

Capital Expenditures

"Growth capital expenditures", or "growth and acquisition capital expenditures", are capital expenditures that are intended to improve our efficiency and productivity, allow us to access new markets, and diversify our business. Growth capital or growth and acquisition capital are reported separately from maintenance capital because these types of expenditures are discretionary. "Maintenance capital expenditures" are capital expenditures to replace and maintain depreciable assets at current service levels. Maintenance capital expenditures are reported separately from growth activity because these types of expenditures are not discretionary and are required to maintain current operating levels.

Capital expenditures for the three months and years ended December 31, 2009 and December 31, 2008 were:

(\$000s)	Q4 2009	Q4 2008	2009	2008
Growth capital expenditures ⁽¹⁾	4,739	38,193	18,696	104,440
Maintenance capital expenditures	3,501	8,461	8,589	20,762
Total capital expenditures ⁽²⁾	8,240	46,654	27,285	125,202

(1) Acquisitions in Q4 and 2008 were \$620,000 and Q4 and 2009 were nil.

(2) The numbers in this table differ from the consolidated statements of cash flows because the numbers above do not reflect the net change in working capital related to capital asset accruals.

Total capital expenditures for the quarter were \$8.2 million. Growth capital expenditures of \$4.7 million were primarily related to centrifugation equipment for onsite project work in our Heavy Oil business unit and equipment upgrades at our fixed facilities. For the full year, growth capital related primarily to the commissioning of the second kiln at VSC, expansion of the Heavy Oil's onsite business, upgrades to our Sussex facility in Atlantic Canada and process improvements within our facilities and onsite services across Canada. 2009 growth capital expenditures were funded by funds from operations and working capital. Maintenance capital of \$8.6 million in 2009 related primarily to control equipment and structural building improvements at VSC, equipment replacement at our facilities in Ontario, Atlantic Canada and in the Western division, as well as process improvements at our Elk Point and Hughenden Heavy Oil facilities.

Capital expenditures in 2010 are budgeted at \$87 million, comprised of growth capital expenditures of \$60 million, and maintenance capital of \$27 million. We plan to spend \$35 million in growth capital expenditures in the Onsite division, primarily related to expansion of the Heavy Oil business unit as well as additional equipment for the East and West Onsite business units. We plan to spend \$20 million in the Facilities division, primarily related to process improvements and additions, as well as the completion of a new oilfield facility. Maintenance capital expenditures will relate to the construction of additional landfill cells, process improvements and equipment replacement.

These investments will be funded from funds from operations. We may revise the forecast, from time to time, in response to changes in market conditions that materially impact our financial performance and/or investment opportunities.

Dividends and Share Capital

In determining the dividend to be paid to our shareholders, the Board of Directors considers a number of factors including the forecasts for operating and financial results, maintenance and growth capital requirements as well as market activity and conditions. After a review of all factors, the Board declared a dividend of \$0.05 per share, paid January 15, 2010 to shareholders of record as at December 31, 2009.

We expect to pay a dividend of \$0.05 per share to holders of record on March 31, 2010. The Board will continue to review future dividends, taking into account all factors noted above.

As at March 2, 2010, Newalta had 48,479,002 shares outstanding, outstanding options to purchase up to 2,807,075 shares and a number of shares that may be issuable pursuant to the \$115.0 million in Debentures (see Sources of Cash - Debentures).

Contractual Obligations

Our contractual obligations, as at December 31, 2009, were:

(\$000s)	Total	Less than one year	1-3 years	4-5 years	Thereafter
Office leases	71,863	7,973	14,695	14,255	34,940
Operating leases ⁽¹⁾	24,912	10,692	12,782	1,438	-
Surface leases	4,137	1,092	2,245	800	-
Convertible debentures	138,479	8,050	130,429	-	-
Senior long-term debt ⁽²⁾	191,280	-	191,280	-	-
Total commitments	430,671	27,807	351,431	16,493	34,940

(1) Operating leases relate to our vehicle fleet with terms ranging between 3 and 5 years

(2) Senior long-term debt is gross of transaction costs. Interest payments are not included.

Summary of Quarterly Results

(\$000s except per share data)	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	137,308	122,169	111,386	112,538	145,341	158,579	142,939	150,176
Earnings (loss) before taxes	3,451	5,936	(293)	(6,362)	5,616	19,041	9,293	16,542
Net earnings (loss)	4,092	3,567	(179)	(4,381)	9,085	18,717	11,776	19,304
Earnings (loss) per share (\$)	0.09	0.08	0.00	(0.10)	0.21	0.44	0.28	0.47
Diluted earnings (loss) per share (\$)	0.09	0.08	0.00	(0.10)	0.21	0.44	0.28	0.46
Weighted average share – basic	46,770	42,438	42,450	42,402	42,266	42,102	41,822	41,543
Weighted average share – diluted	47,049	42,610	42,450	42,402	42,266	42,111	41,950	41,635
EBITDA	24,698	25,253	17,940	12,030	27,600	37,441	26,573	34,139
Adjusted EBITDA	25,506	26,606	18,253	11,792	27,630	36,887	27,190	34,184

Quarterly performance is affected by seasonal variation as described below.

For the first three quarters in 2008, revenue, earnings before taxes, and net earnings reflect relatively high commodity prices and strong drilling activity. In Q4 2008, crude oil prices declined significantly, negatively impacting revenue and earnings in the Western division. Earnings in Q4 2008 were negatively impacted by non-recurring charges related to conversion costs, reorganization charges and changes in estimated revenue associated with certain environmental projects. Increases in weighted average shares in 2008 related to the DRIP, which was discontinued after we converted from an income trust to a corporation.

In 2009, the decrease in revenue, earnings before taxes, and net earnings as compared to the prior period was mainly due to weak economic conditions. Lead and crude oil prices fell from historic highs achieved in 2008, continuing the negative impact on revenue and margin from Q4 2008. The improvement in Q2 2009 was driven by a combination of stronger commodity prices and management's cost containment program. In Q3 2009, we observed improved commodity prices and typical seasonal activity increases; however, our waste volumes remained below historic levels. Revenue in Q4 2009 improved due to improved commodity prices, higher waste receipts at SCL and higher daily average production at VSC. Weighted average shares increased reflecting the equity offering of 6 million shares completed on October 27, 2009. Compared to 2008, Adjusted EBITDA was down \$22.4 million in Q1, \$8.9 million in Q2, \$10.3 million in Q3 and only \$2.1 million in Q4. The year-over-year decline was higher in Q1 than for the last three quarters combined.

Seasonality of Operations

Quarterly performance is affected by, among other things, weather conditions, commodity prices, market demand and the timing of our growth capital investments as well as acquisitions and the contributions from those investments. Growth capital investments completed in the first half of the year will tend to strengthen the second half financial performance.

In 2009, the volatility of commodity prices and foreign exchange combined with the impact of management's cost cutting initiatives has affected the ability to see these seasonality trends in our combined divisional net margin and EBITDA.

Seasonality impacts the Western and Eastern divisions differently, reflecting the types of services that each provides. The following seasonality factors describe the typical quarterly fluctuations in operating results in the absence of growth and acquisition capital and significant volatility in commodity prices and foreign exchange rates.

For Western, the frozen ground during the winter months in western Canada provides an optimal environment for drilling activities and consequently, the first quarter is typically strong. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until the roads have thoroughly dried out. Road bans, which are generally imposed in the spring, restrict waste transportation which reduces demand for the Western Division's services and therefore, the second quarter is generally the weakest quarter of the year for Western. The third quarter is typically the strongest quarter for Western due to favourable weather conditions and market cyclicality. The areas in the U.S. in which we operate are not affected by frozen ground requirements for winter drilling nor are they impacted by the spring thaw. Typical seasonality for quarterly revenue as a percentage of annual Western revenue is approximately: 26% for the first quarter, 23% for the second quarter, 27% for the third quarter, and 24% in the fourth quarter.

Eastern's services are generally curtailed by colder weather in the first quarter, which is typically its weakest quarter as aqueous wastes and onsite work are restricted by colder temperatures. Typical seasonality for quarterly revenue as a percentage of annual revenue for Eastern is approximately: 23% in the first quarter, 25% in the second quarter, 25% in the third quarter, and 27% in the fourth quarter.

Recent Developments

Effective January 1, 2010, we reorganized our reporting structure into two divisions - Onsite and Facilities - in order to better align the business for continued growth. The Onsite division includes the Western Onsite, Eastern Onsite and Heavy Oil business units, while the Facilities division includes the Western Facilities, Eastern Facilities and the VSC business units. The new reporting structure was implemented to facilitate growth in Onsite operations by enabling us to manage and leverage resources, equipment and technical expertise nationally in order to provide our customers with the most cost-effective solutions to their complex environmental challenges. The Onsite business is primarily contractual in nature and involves sales, finance and management capabilities distinctly different from our Facilities business. Shared resources and technical expertise will be directed primarily at large customers with complex environmental challenges, where we can help reduce their costs and improve their environmental performance.

Onsite has grown dramatically over the past few years, representing 32% of total revenue and 29% of combined net margin in 2009. When we manage waste directly onsite we bring our people, processing expertise, and specialized equipment to a customer's site to manage the customer's needs at the source. This approach creates value for our customers and minimizes off-site disposal but also requires a flexible business model capable of finding unique solutions for our customers. Onsite includes: the processing of heavy oilfield-generated wastes and the sale of recovered crude oil for our account; industrial cleaning; site remediation; dredging and dewatering; technical services; and drill site processing for solids control and drill cuttings management.

The Facilities division provides the operational expertise and management capacity to support key business initiatives. Revenue from Facilities represents 68% of total revenue and 71% of combined net margin in 2009. Facilities operations include: the processing and disposal of industrial and oilfield-generated wastes including collection, treatment, and disposal; clean oil terminalling; custom treating; the sale of recovered crude oil for our account; oil recycling; and lead battery recycling.

The next tables restate the historical segmented information from the Western and Eastern divisions to the Onsite and Facilities divisions.

Onsite – Information by Quarter

(\$000s)	2009				2008				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	35,593	35,732	43,124	42,671	48,237	43,886	51,273	46,554	34,046	37,608	50,921	52,847
Operating costs	29,107	27,219	30,117	31,263	35,627	32,183	36,896	36,564	27,427	30,734	37,754	40,641
Amortization and accretion	3,001	2,149	2,623	3,643	3,378	3,018	3,550	4,513	2,459	2,854	2,843	2,889
Net Margin	3,485	6,364	10,384	7,765	9,232	8,685	10,827	5,477	4,160	4,020	10,324	9,317
Net Margin as % of revenue	10%	18%	24%	18%	19%	20%	21%	12%	12%	11%	20%	18%
Capital Expenditures	1,796	1,596	1,881	4,596	3,029	6,261	15,552	18,865	1,644	7,753	15,129	15,461

Onsite - Year-to-Date Information

(\$000s)	2009				2008				2007			
	Q1	Q2 YTD	Q3 YTD	Q4 YTD	Q1	Q2 YTD	Q3 YTD	Q4 YTD	Q1	Q2 YTD	Q3 YTD	Q4 YTD
Revenue	35,593	71,325	114,449	157,120	48,237	92,123	143,396	189,950	34,046	71,654	122,575	175,422
Operating costs	29,107	56,326	86,443	117,706	35,627	67,810	104,706	141,270	27,427	58,161	95,915	136,556
Amortization and accretion	3,001	5,150	7,773	11,416	3,378	6,396	9,946	14,459	2,459	5,313	8,156	11,045
Net Margin	3,485	9,849	20,233	27,998	9,232	17,917	28,744	34,221	4,160	8,180	18,504	27,821
Net Margin as % of revenue	10%	14%	18%	18%	19%	19%	20%	18%	12%	11%	15%	16%
Capital Expenditures	1,796	3,392	5,273	9,869	3,029	9,290	24,842	43,707	1,644	9,397	24,526	39,987

Facilities – Information by Quarter

(\$000s)	2009				2008				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	76,945	75,654	79,045	94,637	101,898	99,014	107,306	98,787	83,267	73,897	82,395	84,186
Inter-segment revenue	156	341	411	295	301	240	128	250	-	433	105	114
Operating costs	57,950	53,698	54,158	65,039	65,835	68,405	69,617	64,865	52,087	52,687	53,142	54,841
Amortization and accretion	6,607	6,602	6,549	8,161	6,093	6,439	5,511	7,830	6,121	5,454	5,945	6,447
Net Margin	12,544	15,695	18,749	21,732	30,271	24,410	32,306	26,342	25,059	16,189	23,413	23,012
Net Margin as % of revenue	16%	21%	24%	23%	30%	25%	30%	27%	30%	22%	28%	27%
Capital Expenditures	4,973	3,285	1,687	4,155	10,660	13,641	17,068	23,690	9,908	36,654	16,169	72,800

Facilities - Year-to-Date Information

(\$000s)	2009				2008				2007			
	Q1	Q2 YTD	Q3 YTD	Q4 YTD	Q1	Q2 YTD	Q3 YTD	Q4 YTD	Q1	Q2 YTD	Q3 YTD	Q4 YTD
Revenue	76,945	152,599	231,644	326,281	101,898	200,912	308,218	407,005	83,267	157,164	239,559	323,745
Inter-segment revenue	156	497	908	1,203	301	541	669	919	-	433	538	652
Operating costs	57,950	111,648	165,806	230,845	65,835	134,240	203,857	268,722	52,087	104,774	157,915	212,756
Amortization and accretion	6,607	13,209	19,758	27,919	6,093	12,532	18,043	25,873	6,121	11,575	17,520	23,967
Net Margin	12,544	28,239	46,988	68,720	30,217	54,681	86,987	113,329	25,059	41,248	64,662	87,674
Net Margin as % of revenue	16%	18%	20%	21%	30%	27%	28%	28%	30%	26%	27%	27%
Capital Expenditures	4,973	8,258	9,945	14,100	10,660	24,301	41,369	65,059	9,908	46,562	62,731	135,531

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Sensitivities

Our revenue is sensitive to changes in commodity prices for crude oil, base oils and lead. These factors have both a direct and indirect impact on our business. The direct impact of these commodity prices is reflected in the revenue received from the sale of products such as crude oil, base oils and lead. The indirect impact is the effect that the variations of these factors, including natural gas, has on activity levels of our customers and, therefore, demand for our services. The indirect impacts of these fluctuations previously discussed are not quantifiable.

The following table provides management's estimates of fluctuations in key inputs and prices and the direct impact on revenue from product sales and SG&A:

	Change in benchmark	Impact on Annual Revenue (\$)
LME lead price (U.S.\$/MT) ⁽¹⁾	\$220	6.9 million
Edmonton Par crude oil price (\$/bbl) ⁽¹⁾	\$1.00	0.3 million
Gulf Coast Base oil (\$/litre) ⁽¹⁾	\$0.05	0.8 million

(1) Based on 2009 performance and volumes.

Selected Quarterly Information

For the Three Months ended December 31, 2009					
	Western	Eastern	Inter-segment	Unallocated ⁽³⁾	Consolidated Total
External revenue	62,125	75,183	-	-	137,308
Inter segment revenue ⁽¹⁾	295	-	(295)	-	-
Operating expense	40,422	55,880	(295)	-	96,007
Amortization and accretion expense	5,931	5,873	-	2,754	14,558
Net margin	16,067	13,430	-	(2,754)	26,743
Selling, general and administrative	-	-	-	16,603	16,603
Finance charges	-	-	-	6,689	6,689
Earnings before taxes	16,067	13,430	-	(26,046)	3,451
Capital expenditures and acquisitions ⁽²⁾	4,566	4,185	-	(511)	8,240
Goodwill	62,280	41,317	-	-	103,597
Total assets	510,518	410,030	-	73,182	993,730

For the Three Months ended December 31, 2008					
	Western	Eastern	Inter-segment	Unallocated ⁽³⁾	Consolidated Total
External revenue	79,645	65,696	-	-	145,341
Inter segment revenue ⁽¹⁾	250	-	(250)	-	-
Operating expense	53,535	47,894	(250)	-	101,179
Amortization and accretion expense	5,545	6,798	-	3,403	15,746
Net margin	20,815	11,004	-	(3,403)	28,416
Selling, general and administrative	-	-	-	16,562	16,562
Finance charges	-	-	-	6,238	6,238
Earnings before taxes	20,815	11,004	-	(26,203)	5,616
Capital expenditures and acquisitions ⁽²⁾	26,677	15,878	-	4,099	46,654
Goodwill	62,280	41,317	-	-	103,597
Total assets	552,132	425,233	-	74,545	1,051,910

(1) Inter-segment revenue is recorded at market, less the cost of serving external customers.

(2) Includes capital asset additions and the purchase price of acquisitions.

(3) Management does not allocate selling, general and administrative, taxes, and interest costs in the segment analysis.

Critical Accounting Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates with regard to the reported amounts of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and other factors determined by management. Because this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

Amortization and Accretion

Amortization of capital assets and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operation of plant and equipment. Accretion expense is the increase in the asset retirement obligation over time. The asset retirement obligation is based on estimates that may change as more experience is obtained or as general market conditions change impacting the future cost of abandoning our facilities. Amortization of capital assets and intangible assets incorporates estimates of useful lives and residual values. The estimates may change as more experience is obtained or as general market conditions change impacting the operating of plant and equipment.

Asset Retirement Obligations

Asset retirement obligations are estimated by management based on the anticipated costs to abandon and reclaim all our facilities and landfills as well as the projected timing of the costs to be incurred in future periods. Management, in consultation with Newalta's engineers, estimates these costs based on current regulations, costs, technology, and industry standards. The fair value estimate is capitalized as part of the cost of the related asset and amortized to expense over the asset's useful life. The useful lives of the assets and the long-term commitments of certain sites range from 20 to 300 years. The total estimated future cost for asset retirement obligations at December 31, 2009 was \$9.8 billion. The net present value of this amount, \$21.9 million (using a discount rate of 8%), has been accrued on the consolidated balance sheet at December 31, 2009. The majority of the undiscounted future asset retirement obligations relates to SCL in Ontario, which are expected to be incurred over the next 300 years. Excluding SCL, the total undiscounted future costs are \$36.2 million. There were no significant changes in the estimates used to prepare the asset retirement obligation in 2009 compared to 2008.

Goodwill

We perform a test for goodwill impairment annually and whenever events or circumstances make it possible that impairment may have occurred. Determining whether impairment has occurred requires a valuation of the respective segment, based on its future discounted cash flows. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data. We test the valuation of goodwill as at September 30 of each year to determine whether or not any impairment in the goodwill balance recorded exists. In addition, on a quarterly basis, we assess the reasonableness of assumptions used for the valuation to determine if further impairment testing is required.

Our determination as at September 30, 2009 and December 31, 2009 was that goodwill was not impaired.

Income Taxes

Current income tax expense predominantly represents capital taxes paid in eastern Canada, federal and provincial income taxes, and U.S. taxation imposed on the U.S. subsidiary. Prior to the elimination of the trust structure on December 31, 2008, Newalta Income Fund itself was sheltered from any current tax liability as all of its taxable income was distributed to unitholders.

Future income taxes are estimated based on temporary differences between the book value and tax value of assets and liabilities using the applicable future income tax rates under current law. The change in these temporary differences results in a future income tax expense or recovery. The applicable future income tax rate for each entity is calculated based on provincial allocation calculations and the expected timing of reversal of temporary differences. Changes in the assumptions used to derive the future income tax rate could have a material impact on the future income tax expense or recovery incurred in the period.

Permits and Other Intangibles

Permits and other intangibles represent the book value of expiring permits and rights, indefinite permits, and non-competition contracts. The intrinsic value of the permits relates to the breadth of the terms and conditions and the types of waste we are able to process. In today's regulatory environment, management believes an operator would be unable to obtain similar permits with the same scope of operations. Therefore, management estimates that the value of our permits could be greater than its book value.

Stock-Based Compensation

We have three share-based compensation plans, the 2003 Option Plan (the "2003 Plan"), the 2006 Option Plan (the "2006 Plan") and the 2008 Option Plan (the "2008 Plan"). Under the option plans, we may grant to directors, officers, employees and consultants of Newalta or any of its affiliates, options to acquire up to 10% of the issued and outstanding shares. Newalta uses the fair value method to account for the options granted pursuant to the 2003 Plan and recognizes the share based compensation expense over the vesting period of the options, with a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to shareholders' capital. Forfeitures are accounted for as incurred. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of the options, the expected volatility of the underlying security and the expected dividends.

The 2006 Plan and the 2008 Plan, are accounted for as stock appreciation rights since they allow for individuals to settle their rights in cash. Accordingly, we use the intrinsic value method to account for these rights. The intrinsic value reflects the net cash liability calculated as the difference between the market value of the shares and the exercise price of the right. This is re-measured at each reporting date and stock based compensation expense is increased or decreased accordingly. Decreases or reversals of stock based compensation expense are limited to previously recognized stock based compensation expense.

Adoption of New Accounting Standards in 2009

Effective January 1, 2009, we adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standard, section 3064, Goodwill and Intangible Assets, replacing section 3062, Goodwill and Other Intangible Assets. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The adoption of this new section did not have a material impact on Newalta's financial statements.

Future Accounting Policy Changes

Information regarding our changes in accounting policies is included in Note 3 to the Consolidated Financial Statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises would be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are differences in recognition, measurement and disclosures. At this time, the impact of IFRS convergence on our future consolidated balance sheets and consolidated statements of operations, comprehensive income and retained earnings (deficit) and cash flows is not reasonably determinable or estimable.

We have commenced our IFRS project and have established a formal project governance structure with a target implementation date of January 1, 2011. We continue to actively monitor the activities of the AcSB and the International Accounting Standards Board which may issue new accounting standards during the period leading up to the conversion. We will modify the plan to incorporate new accounting requirements as they are issued. The following table summarizes our key activities, related milestones, and accomplishments to date.

Key Activity	Milestones	Status (as at September 30, 2009)	Status (as at December 31, 2009)
Accounting policies: Identification of differences between Canadian GAAP/IFRS - Accounting policy choices under IFRS - Financial statement impact - Opening balances - Final implementation decisions - Financial policies and procedures	Complete new financial policies and procedures manual addressing IFRS requirements. Key milestones include: - Opening balances estimates – Q3 2009 - Testing phase – Q3/Q4 2009 - SAP parallel run – Q4 2009 - Finalize opening balances – Q4 2009/Q1 2010	Assessment processes are ongoing. We have completed our final review of processes in most areas and are confirming our assessment with our consultants and auditors. For the outstanding areas, we have made significant progress in our assessment processes.	We have completed our final review of processes and are in the process of confirming our assessment with our consultants and auditors. Parallel SAP is operational. We are on track for finalizing opening balances during the first half of 2010.
Detailed policy assessment: Identification of areas that may have a significant impact.	Develop working groups and training to implement changes for significant impact items. Key milestones include: - Develop and implement training programs for working groups – Q1 2009 - Identify and recommend systemic process changes – Q2/Q3 2009	We are finalizing our recommendations for systemic process changes required by IFRS.	We are finalizing our recommendations for systemic process changes required by IFRS. Significant impact areas have been identified. The financial statement impact assessment is ongoing. Issue specific training sessions will begin Q1 2010.
IT Infrastructure: Identify key changes in the following areas: - IT system changes and upgrades - Systemic process changes for data collection for G/L, disclosures, and consolidation - One-time processes due to IFRS 1	Ensure readiness for parallel processing of 2010 financial results and IFRS-compliant reporting in 2011 – Q4 2009	We have identified and addressed key IT infrastructure issues. We are proceeding in accordance with our IT plan.	Required system upgrades and changes have been made. Parallel SAP system is operational. We are proceeding in accordance with our IT plan.
Control environment: Internal control over financial reporting - Accounting policy changes and approval - Changes to certification process	Complete final signoff and review of accounting policy changes by Q4 2010 Update certification process by Q4 2010	Assessment is ongoing.	Assessment is ongoing.
Control environment: Disclosure controls and procedures - MD&A communications package - IFRS adjustments to Canadian GAAP statements (2010) 2011 financial statement presentation	Publish material changes in policies and known impacts of IFRS throughout 2009 & 2010 MD&A's – starting Q3 – 2009 Publish impact of conversion (with reconciliation to GAAP) on key measures by Q1 2011 Publish disclosure of 2010 comparative information (with reconciliation to GAAP) in the interim and annual financial statements – Q1 2011	Assessment is ongoing. Key stakeholder communications will continue into the balance of 2009 and 2010. Material changes in policies and known impacts are expected to be communicated throughout 2010.	Assessment is ongoing. Key stakeholder communications will continue in 2010. Material changes in policies and known impacts are expected to be communicated throughout 2010.
Other Issues: Address impacts to operations due to IFRS: - Investor relations - Financial covenants - Compensation packages	Develop investor relations communication plan by Q3 2009 Review of: - Financial covenants – by Q3 – 2010 - Compensation packages – by Q3 – 2010	Assessment is ongoing.	Assessment is ongoing.

The detailed project plan and the expected timing of key activities identified above may change prior to the IFRS conversion date due to the issuance of new accounting standards or amendments to existing accounting standards, changes in regulations or economic conditions or other factors.

Business Risks

Our business is subject to certain risks and uncertainties. Prior to making any investment decision regarding Newalta, investors should carefully consider, among other things, the risks described herein (including the risks and uncertainties listed in the fourth paragraph of this Management's Discussion and Analysis) and the risk factors set forth in the most recently filed Annual Information Form of Newalta which are incorporated by reference herein.

The Annual Information Form is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. Copies of the Annual Information Form may be obtained, on request without charge, from Newalta Corporation at 211 – 11th Avenue S.W., Calgary, Alberta T2R 0C6 or by facsimile at (403) 806-7032.

Financial and Other Instruments

The carrying values of accounts receivable and accounts payable approximate the fair value of these financial instruments due to their short term maturities. Our credit risk from our customers is mitigated by our broad customer base and diverse product lines. In the normal course of operations, we are exposed to movements in U.S. dollar exchange rates relative to the Canadian dollar. The foreign exchange risk arises primarily from U.S. dollar denominated long-term debt and working capital. We have not entered into any financial derivatives to manage the risk for the foreign currency exposure as at December 31, 2009. The floating interest rate profile of our long-term debt exposes us to interest rate risk. We do not use hedging instruments to mitigate this risk. The carrying value of the long-term debt approximates fair value due to its floating interest rates. For further information regarding our financial and other instruments, please refer to Note 18 to the Consolidated financial statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer (collectively the "Certifying Officers") have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2009 and have concluded that such disclosure controls and procedures were effective. In addition, the Certifying Officers have evaluated the design and effectiveness of our internal control over financial reporting as of December 31, 2009 and have concluded that such internal controls over financial reporting were effective. There have not been any changes in the internal control over financial reporting in Q4 of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Additional Information

Additional information relating to Newalta, including the Annual Information Form, is available through the internet on the Canadian SEDAR which can be accessed at www.sedar.com. Copies of the Annual Information Form of Newalta may be obtained from Newalta Corporation on the internet at www.newalta.com, by mail at 211 – 11th Avenue S.W., Calgary, Alberta T2R 0C6, or by facsimile at (403) 806-7032.

Management Report

Management is responsible for the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles and for the consistency therewith of all other financial and operating data presented in the this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of three non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The board has approved the consolidated financial statements.



Michael A. Borys

Senior Vice President, Finance and Chief Financial Officer

February 25, 2010

Auditors' Report

To the Shareholders of Newalta Corporation:

We have audited the consolidated balance sheets of Newalta Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta

February 25, 2010

Consolidated Balance Sheets

(\$000s)	December 31, 2009	December 31, 2008
Assets		
Current assets		
Accounts receivable	84,317	120,884
Inventories (Note 4)	33,148	29,781
Prepaid expenses and other	6,183	6,546
	123,648	157,211
Note receivable (Note 5)	978	1,160
Capital assets (Note 6)	701,884	724,788
Permits and other intangible assets (Note 7)	61,935	64,003
Goodwill	103,597	103,597
Future income taxes (Note 10)	1,688	1,151
	993,730	1,051,910
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	90,191	109,698
Dividends/distributions payable (Note 16)	2,423	7,560
	92,614	117,258
Senior long-term debt (Note 8)	188,123	263,251
Convertible debentures – debt portion (Note 9)	110,708	109,419
Other long-term liabilities (Note 14)	1,218	-
Future income taxes (Note 10)	39,164	40,039
Asset retirement obligations (Note 11)	21,903	21,094
	453,730	551,061
Shareholders' Equity (Notes 9 and 12)		
Shareholders' capital	552,871	509,369
Convertible debentures – equity portion	1,850	1,850
Contributed surplus	1,679	988
Retained earnings (deficit)	(16,400)	(11,358)
	540,000	500,849
	993,730	1,051,910

Approved by the Board



Barry D. Stewart
Director



R.H. (Dick) Pinder
Director

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)

	For the year ended December 31,	
(\$000s except earnings per share data)	2009	2008
Revenue	483,401	597,035
Expenses		
Operating (Note 4)	347,348	409,073
Selling, general and administrative	56,132	62,129
Finance charges	25,364	24,104
Amortization and accretion (Note 6)	51,825	51,237
	480,669	546,543
Earnings before taxes	2,732	50,492
Provision for (recovery of) income taxes (Note 10)		
Current	945	949
Future	(1,312)	(9,339)
	(367)	(8,390)
Net earnings and comprehensive income	3,099	58,882
Retained earnings (deficit), beginning of period	(11,358)	22,940
Dividends/distributions (Note 16)	(8,141)	(93,180)
Retained earnings (deficit), end of period	(16,400)	(11,358)
Net earnings per share (Note 15)	0.07	1.40
Diluted earnings per share (Note 15)	0.07	1.40

Consolidated Statements of Cash Flows

(\$000s)	For the year ended December 31,	
	2009	2008
Net inflow (outflow) of cash related to the following activities:		
Operating Activities		
Net earnings	3,099	58,882
Items not requiring cash:		
Amortization and accretion	51,825	51,237
Future income tax recovery	(1,312)	(9,339)
Stock based compensation expense	2,236	137
Other (Note 19)	5,095	(2,611)
Funds from Operations	60,943	98,306
Increase in non-cash working capital (Note 19)	23,599	32,647
Asset retirement expenditures incurred	(1,024)	(2,031)
	83,518	128,922
Investing Activities		
Additions to capital assets (Note 19)	(39,652)	(117,472)
Net proceeds on sale of capital assets (Note 6)	1,921	15,200
Acquisitions	-	(2,662)
	(37,731)	(104,934)
Financing Activities		
Issuance of shares	44,227	1,913
Increase (decrease) in debt	(76,963)	55,847
Decrease in note receivable	182	345
Dividends/distributions to shareholders (Note 16)	(13,233)	(82,093)
	(45,787)	(23,988)
Net cash flow	-	-
Cash – beginning of period	-	-
Cash – end of period	-	-
Supplementary information:		
Interest paid	22,311	22,468
Income taxes paid	588	1,500

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

(all tabular data in \$000s except per share and ratio data)

Note 1. Corporate Structure

Newalta Inc. was incorporated on October 29, 2008 pursuant to the laws of the Province of Alberta. Newalta Inc. is engaged, through its wholly owned operating subsidiary, Newalta Corporation (the “Corporation”, and together with Newalta Inc., collectively “Newalta”), in adapting technologies to maximize the value inherent in industrial waste through the recovery of saleable products and recycling. Newalta also provides environmentally sound disposal of solid, non-hazardous industrial waste. With an integrated network of facilities, Newalta provides waste management solutions to a broad customer base of national and international corporations in a range of industries, including automotive, construction, forestry, lead, manufacturing, mining, oil and gas, petrochemical, pulp and paper, refining, steel and transportation services.

Following changes in tax rules for specified investment flow-through entities, Newalta Income Fund (the “Fund”) undertook steps to convert the Fund’s income trust structure into a corporate structure. On December 17, 2008, unitholders of the Fund voted and approved the reorganization by way of a plan of arrangement under the Business Corporations Act (Alberta), into a corporation pursuant to an arrangement agreement dated November 12, 2008 (as amended) between Newalta Inc., Newalta Income Fund, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. (the “Arrangement”).

On January 1, 2009, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. were amalgamated to form Newalta Corporation.

Prior to the Arrangement, which was effective on December 31, 2008, the consolidated financial statements included the accounts of the Fund and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements were prepared on a continuity of interests basis, which recognizes Newalta Inc. as the successor entity to the Fund.

On December 31, 2009, the sole unitholder of Newalta Income Fund approved the wind-up of the fund.

Subsequent to year end, on January 1, 2010, Newalta Inc. was amalgamated with its wholly-owned operating subsidiary, Newalta Corporation, to form Newalta Corporation.

Note 2. Basis of Presentation

The consolidated financial statements include the accounts of Newalta Inc. and its wholly-owned subsidiaries. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) Cash and cash equivalents

Cash is defined as cash and short-term deposits with maturities of three months or less, when purchased.

b) Inventory

Inventory is comprised of oil, lead and other recycled products, spare parts and supplies, and is recorded at the lower of cost and net realizable value. Cost of finished goods includes the laid down cost of materials plus the cost of direct labour applied to the product and the applicable share of overhead expense. Cost of other items of inventory comprises the laid down cost.

c) Capital and intangible assets

Capital and intangible assets are stated at cost, less accumulated amortization. Amortization rates are calculated to amortize the costs, net of salvage value, over the assets’ estimated useful lives. Plant and equipment includes buildings, site improvements, tanks and mobile

equipment and is principally depreciated at rates of 5-10% of the declining balance or from 5-14 years straight line, depending on the expected life of the asset. Some equipment is depreciated based on utilization rates. The utilization rate is determined by dividing the cost of the asset (net of estimated salvage value) by the estimated future hours of service.

Landfill assets represent the costs of landfill available space, including original acquisition cost, incurred landfill construction and development costs, including gas collection systems installed during the operating life of the site, and capitalized landfill closure and post-closure costs. The cost of landfill assets, together with projected landfill construction and development costs for permitted capacity, is amortized on a per unit basis as landfill space is consumed. Management annually updates landfill capacity estimates, based on survey information provided by independent engineers, and projected landfill construction and development costs. The impact on annual amortization expense of changes in estimated capacity and construction costs is accounted for prospectively.

The carrying values of capital assets are reviewed at least annually to determine if the value of any asset is impaired. Any amount so determined is written off in the year of impairment. As at December 31, 2009, there was no impairment in the value of capital assets.

Intangible assets consist of certain production processes, trademarks, permits and agreements, which are amortized over the period of the contractual benefit of 3-20 years, straight line. Certain permits are deemed to have indefinite lives and therefore are not amortized. There are nominal fees to renew these permits provided that Newalta remains in good standing with regulatory authorities.

The carrying values of intangibles are reviewed at least annually whereby management reviews any changes in the regulatory environment that could cause impairment in the value ascribed to these permits. Any amount so determined is written off in the year of impairment. As at December 31, 2009, there was no impairment in the value of these permits.

d) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of acquired businesses. Newalta, at least annually, on September 30, assesses goodwill, and its potential impairment, on a reporting unit basis by determining whether the balance of goodwill can be recovered through the estimated discounted operating cash flows of each reporting unit over their remaining lives. Management's determination as at September 30, 2009 and December 31, 2009 was that goodwill was not impaired.

e) Asset retirement obligations

Newalta provides for estimated future asset retirement costs for all its facilities based on the useful lives of the assets and the long-term commitments of certain sites (20 to 300 years). Over this period, Newalta recognizes the liability for the future retirement obligations associated with capital assets. These obligations are initially measured at fair value, which is the discounted future value of the liability. This fair value is capitalized as part of the cost of the related asset and amortized to expense over the asset's useful life. The balance of the liability accretes until the date of expected settlement of the retirement obligations. The accretion expense has been included in amortization and accretion expense. Asset retirement costs are estimated by management, in consultation with Newalta's engineers, on the basis of current regulations, costs, technology and industry standards. Actual asset retirement costs are charged against the provision as incurred.

f) Revenue recognition

The major sources of revenue relate to the processing of waste material and the sale of recycled products recovered from the waste. Revenue is recognized when waste material is received and a liability is assumed for the waste. Revenue on recycled products is recognized when products are delivered to customers or pipelines. For construction projects and well abandonment work, revenue is recognized on a percentage of completion basis.

g) Income taxes

Newalta Inc. and its wholly owned subsidiaries follow the liability method of accounting for income taxes. Future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax basis. Future income tax expense is computed based on the change during the year in the future income tax assets and liabilities. Effects of changes in tax laws and tax rates are recognized when substantively enacted.

Income tax assets are also recognized for the benefits from tax losses and deductions with no accounting basis, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of estimated realization.

h) Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adding the weighted average number of shares outstanding during the year to the additional shares that would have been outstanding if potentially dilutive shares had been issued, using the “treasury stock” method and the “if converted” method for the Debentures.

i) Incentive plans

Newalta Inc. has three share-based compensation plans, the 2003 Option Plan (the “2003 Plan”), the 2006 Option Plan (the “2006 Plan”) and the 2008 Option Plan (the “2008 Plan”). Under the option plans, Newalta Inc. may grant to directors, officers, employees and consultants of Newalta Inc. or any of its affiliates, rights to acquire up to 10% of the issued and outstanding shares. Newalta Inc. uses the fair value method to account for the options granted pursuant to the 2003 Plan and recognizes the share based compensation expense over the vesting period of the options, with a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to shareholders’ capital. Forfeitures are accounted for as incurred.

The 2006 Plan and the 2008 Plan allow for individuals to settle their options in cash. Accordingly, Newalta Inc. uses the intrinsic value method to account for these options. The intrinsic value reflects the net cash liability calculated as the difference between the market value of the shares and the exercise price of the option. This is re-measured at each reporting date and stock based compensation expense is increased or decreased accordingly. Decreases or reversals of stock based compensation expense are limited to previously recognized stock based compensation expense.

j) Financial instruments

Classification

All financial instruments are classified into one of five categories and are initially recognized at fair value and subsequently measured as noted in the table below.

Category	Subsequent Measurement
Held-for-trading	Fair value and changes in fair value are recognized in net earnings
Held-to-maturity investments	Amortized cost, using the effective interest method
Loans and receivables	Amortized cost, using the effective interest method
Available-for-sale financial assets	Fair value and changes in fair value are recorded in other comprehensive income until the instrument is derecognized or impaired
Other financial liabilities	Amortized cost, using the effective interest method

Accounts receivable and note receivable are classified as loans and receivables. Senior long-term debt, Convertible Debentures (“Debentures”), accounts payable and accrued liabilities and dividends/distributions payable are classified as other financial liabilities. Newalta does not have any derivatives or embedded derivatives.

Convertible Debentures

Newalta presents outstanding Debentures in their debt and equity component parts on the consolidated balance sheets. The debt component represents the total discounted present value of the semi-annual interest obligations to be satisfied by cash and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. Typically, this results in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity. The debt component presented on the consolidated balance sheets increases over the term of the relevant debenture to the full face value of the outstanding debentures at maturity. The difference is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the Debentures. The equity component

of the Debentures is presented under Shareholders' Equity on the consolidated balance sheets. The equity component represents the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the related Debentures. Upon conversion of the Debentures into shares by the holders, a proportionate amount of both the debt and equity components are transferred to Shareholders' Capital. Accretion and interest expense for the Debentures are reflected as finance charges on the consolidated statements of operations, comprehensive income and retained earnings (deficit).

Transaction Costs

Transaction costs associated with other financial liabilities are netted against the related liability.

k) Measurement uncertainty

The preparation of Newalta's financial statements in a timely manner and in accordance with Canadian generally accepted accounting principles requires the use of estimates, assumptions, and judgment regarding assets, liabilities, revenue and expenses. Such estimates relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Amounts recorded for amortization, accretion, future asset retirement obligations, future income taxes, the equity component of Debentures and impairment calculations are based on estimates. By their nature, these estimates are subject to measurement uncertainty, and the impact of the difference between the actual and the estimated costs on the financial statements of future periods could be material.

Note 3. Accounting Changes

a) Adopted changes

Effective January 1, 2009, Newalta adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standard, section 3064, Goodwill and Intangible Assets, replacing section 3062, Goodwill and Other Intangible Assets. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The adoption of this new section did not have a material impact on Newalta's financial statements.

In June 2009, the CICA amended Section 3862 Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Asset and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to the Section apply to annual financial statements for the Company's fiscal year ended December 31, 2009. At December 31, 2009, Newalta did not have any financial instruments carried at fair value and the adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

b) Future accounting changes

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles ("GAAP"), but there are differences in recognition, measurement and disclosures. At this time, the impact on Newalta's future consolidated balance sheets and consolidated statements of operations, comprehensive income and retained earnings (deficit) and cash flows is not reasonably determinable or estimable.

Section 1582, Business Combinations. This new section will be applicable to business combinations for which the acquisition date is on or after interim and fiscal periods beginning January 1, 2011, with prospective application. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Section 1601, Consolidated Financial Statements. This new Section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011, with prospective application. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Section 1602, Non-Controlling Interests. This new section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011, with prospective application. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Note 4. Inventories

Inventories consist of the following:

	2009	2008
Lead	15,259	15,989
Recycled and processed products	8,046	4,969
Recovered oil	3,667	2,508
Parts and supplies	5,906	4,797
Burner fuel	270	1,518
Total inventory	33,148	29,781

The cost of inventory expensed in operating expenses for the year ended December 31, 2009 was \$62.7 million (\$62.4 million for the same period in 2008). Inventories are pledged as general security under our Credit Facility.

Note 5. Note Receivable

Included in an acquisition in 2005 were certain capital costs relating to landfill construction that are recoverable from a third party based on usage of the landfill. This unsecured and non-interest bearing amount is shown as a note receivable.

Note 6. Capital Assets

a) Capital assets consist of the following:

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	14,813	-	14,813	14,455	-	14,455
Plant and equipment	835,621	(213,991)	621,630	814,976	(176,200)	638,776
Landfill	103,264	(37,823)	65,441	102,395	(30,838)	71,557
Total	953,698	(251,814)	701,884	931,826	(207,038)	724,788

b) Disposal of capital assets

During the year ended December 31, 2009, Newalta disposed of certain transport vehicles, equipment, land and buildings with a net book value of \$3.5 million for proceeds of \$1.9 million. The resulting net loss of \$1.6 million is included in amortization and accretion in the consolidated statements of operations, comprehensive income and retained earnings (deficit).

During the year ended December 31, 2008, Newalta disposed of certain transport vehicles, land and buildings with a net book value of \$15.0 million for proceeds of \$15.2 million. The resulting net gain of \$0.2 million is included in amortization and accretion in the consolidated statements of operations, comprehensive income and retained earnings (deficit).

Note 7. Permits and Other Intangible Assets

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Indefinite permits	53,012	-	53,012	53,037	-	53,037
Expiring permits/rights	11,602	(3,337)	8,265	11,602	(2,697)	8,905
Non-competition contracts	9,070	(8,412)	658	9,070	(7,009)	2,061
Total	73,684	(11,749)	61,935	73,709	(9,706)	64,003

Note 8. Senior Long-Term Debt

On October 9, 2009, Newalta extended the maturity of its Credit Facility to October 12, 2011, and elected to reduce the principal amount of the Credit Facility from \$375 million to \$350 million. The Credit Facility is available to fund growth capital expenditures and for general corporate purposes as well as to provide letters of credit to third parties for financial security up to a maximum amount of \$60.0 million. The aggregate dollar amount of outstanding letters of credit is not categorized in the financial statements as long-term debt; however, the issued letters of credit reduce the amount available under the Credit Facility. Interest on the facilities is subject to certain conditions and may be charged at prime, U.S. base rate, Bankers' Acceptance ("BA") or LIBOR, at the option of the Corporation. The Credit Facility bears interest at a base rate plus an increment (depending on certain criteria) as follows:

Base Rate Type	Range of Increment
Prime Rate	1.75% to 4.00%
U.S. Base Rate	1.75% to 4.00%
BA Rate	2.75% to 5.00%
LIBOR	2.75% to 5.00%

The incremental BA interest rate as at December 31, 2009 was 4.5% (2008 - 2.25%).

The Credit Facility is secured by a fixed and floating charge debenture to the lenders on the assets of the Corporation and material subsidiaries, an unlimited subsidiary guarantee from each material subsidiary of the Corporation, a limited recourse guarantee from Newalta Inc. and an assignment of insurance naming the lenders as first loss payee in relation to business interruption, property and inventory insurance.

An extension of the Credit Facility may be granted at the option of the lenders. If an extension is not granted, the entire amount of the outstanding indebtedness would be due in full at the maturity date. The facility also requires Newalta to be in compliance with certain covenants. At December 31, 2009, Newalta was in compliance with all covenants.

	December 31, 2009	December 31, 2008
Amount drawn on credit facility	191,280	264,687
Issue costs	(3,157)	(1,436)
Senior long-term debt	188,123	263,251

Note 9. Convertible Debentures

In November 2007, the Fund issued \$115.0 million of convertible unsecured subordinated debentures. The Debentures have a maturity date of November 30, 2012 and bear interest at a rate of 7.0% payable semi-annually in arrears on May 31 and November 30 each year beginning May 31, 2008. Each \$1,000 debenture is convertible into 43.4783 shares (or a conversion price of \$23.00 per share) at any time at the option of the holders of the Debentures. As subordinated debt, the issuance of the Debentures does not affect the borrowing capacity on the Credit Facility. On the consolidated balance sheets, the Debentures are presented net of the costs to issue. The equity portion of the Debentures will be reclassified into Shareholders' Capital as the Debentures are converted into shares.

The Debentures are redeemable by Newalta Inc. after November 30, 2010 and on or before November 30, 2011, if the current market price of the shares on the notice date is greater than \$28.75 and may be redeemed after November 30, 2011 for a redemption price of \$1,000 per debenture with 30-60 days notice. The obligation may be settled in cash or shares at the discretion of Newalta Inc.

The following table compares the face and fair values of the Debentures to the carrying value. The fair value of the Debentures was determined by reference to the trading price on December 31, 2009. The effective interest rate is 8.4%.

	Face Value	Fair Value	Equity Portion	Carrying Value Debt Portion
7% Debentures due 2012	115,000	116,438	1,850	110,708

Note 10. Income Tax

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Newalta Inc.'s future income tax liabilities and assets are as follows:

Canadian Tax Jurisdiction	2009	2008
Future income tax liabilities:		
Capital assets	91,858	83,006
Intangible assets	11,946	12,552
Deferred costs	1,902	40
	105,706	95,598
Future income tax assets:		
Non-capital loss carry forwards	46,502	41,778
Goodwill	6,557	7,839
Asset retirement obligation	5,594	5,548
Equity issuance costs	3,023	394
Deferred revenue	4,292	-
Other – donations, allowance for doubtful accounts	574	-
	66,542	55,559
Net future income tax liability	39,164	40,039
 U.S. Tax Jurisdiction	 2009	 2008
Future income tax assets:		
Non-capital loss carry forwards	1,688	1,151
Net future income tax asset from U.S. operations	1,688	1,151

Non-capital loss carry forwards relating to Canadian operations total \$173.4 million and relating to our U.S. Operations total \$4.8 million. These losses will begin expiring in 2026.

Immediately prior to giving effect to the Arrangement, on December 31, 2008, the Fund itself was not subject to income tax provided it distributed all of its taxable income to unitholders. For taxation purposes the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. Realization of future income tax assets is dependent on generating sufficient taxable income during the period in which the temporary differences are deductible. Although realization is not assured, management believes it is more likely than not that all future income tax assets will be realized based on reversals of temporary timing differences, projections of operating results and tax planning strategies available to Newalta and its subsidiaries. Effective December 31, 2008, after giving effect to the Arrangement, Newalta Inc. became subject to tax on taxable income earned from that date forward.

The income tax expense differs from the amount computed by applying Canadian statutory rates to operating income for the following reasons:

	2009	2008
Consolidated earnings of Newalta Inc. before taxes and distributions to shareholders	2,732	50,492
Current statutory income tax rate	30.45%	31.20%
Computed tax expense at statutory rate	832	15,754
Increase (decrease) in taxes resulting from:		
Reduction resulting from distributions to unitholders	-	(28,948)
Capital taxes	945	951
Non-deductible costs	592	455
Foreign tax losses and tax credits paid	-	1,613
Acceleration of tax loss utilization	57	1,500
Other	(1,046)	563
Effect of future income tax rate change	(1,747)	(278)
Reported income tax expense	(367)	(8,390)

Note 11. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the anticipated costs to abandon and reclaim facilities and wells, and the projected timing of these expenditures. The net present value of this amount, \$21.9 million (\$21.1 million at December 31, 2008) has been accrued on the consolidated balance sheets at December 31, 2009. The total estimated future cost for asset retirement obligations at December 31, 2009 was \$9.8 billion. The majority of the undiscounted future asset retirement obligations relate to the Stoney Creek landfill in Ontario, which are expected to be incurred over the next 300 years. Excluding the landfill, the total undiscounted future cost is \$ 36.2 million. Newalta uses a discount rate of 8% and an inflation rate of 2% to calculate the present value of the asset retirement obligations.

	2009	2008
Asset retirement obligations, beginning of period	21,094	20,985
Additional retirement obligations added through development activities	-	289
Expenditures incurred to fulfill obligations	(1,024)	(2,031)
Accretion	1,833	1,851
Asset retirement obligations, end of year	21,903	21,094

Note 12. Shareholders' Capital

a) Shareholders' capital

Authorized capital of Newalta Inc. consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

On June 29, 2009, an aggregate of 60,483 common shares were cancelled and returned to Newalta Inc. Under the terms of the March 1, 2003 Plan of Arrangement, Newalta Corporation (a predecessor entity) converted from a corporate structure to Newalta Income Fund (the "Fund"), a trust structure. The Plan of Arrangement provided that certificates formerly representing common shares of Newalta Corporation that were not deposited with the required documentation on or before March 1, 2009 ceased to represent a right or claim of any kind or nature and the right of the holder of such common shares to receive certificates representing trust units of the Fund or cash payments pursuant to the Plan of Arrangement, as the case may be, were deemed to be surrendered together with all dividends or distributions thereon held for such holder. These shares were valued at \$11.99 each using the average carrying amount of shares outstanding prior to their return. As a result, \$0.7 million was transferred from Share Capital to Contributed Surplus.

On October 27, 2009, Newalta issued 6.0 million shares pursuant to a bought deal equity financing at a price of \$7.65 per share. Proceeds, net of issuance costs, were \$43.8 million.

The following table is a summary of the changes in Shareholders' capital during the period:

(000s)	Shares (#)	Amount (\$)
Shares outstanding as at October 29, 2008	-	-
Shares issued pursuant to the Arrangement	42,400	509,369
Shares outstanding as at December 31, 2008	42,400	509,369
Shares issued (net of issue costs)	6,136	44,227
Shares cancelled and returned to treasury	(60)	(725)
Shares outstanding as at December 31, 2009	48,476	552,871

b) Unitholders' capital

Units outstanding as at December 31, 2007	41,417	496,027
Contributed surplus on rights exercised	-	241
Rights exercised	209	1,913
Units issued under the DRIP ⁽¹⁾	774	11,188
Units cancelled under the Arrangement	(42,400)	(509,369)
Units outstanding as at December 31, 2008	-	-

(1) Distribution Reinvestment Plan of the Fund.

c) Retained earnings (deficit) and contributed surplus

The following table provides a breakdown of the components of retained earnings (deficit):

	2009	2008
Accumulated earnings	363,180	360,081
Accumulated cash distributions	(379,580)	(371,439)
Retained Earnings (Deficit)	(16,400)	(11,358)

The following tables provide a summary of the changes to contributed surplus during the period:

	Amount (\$)
Contributed surplus as at December 31, 2007	1,092
Stock based compensation expense	137
Amounts transferred to equity on exercise of rights	(241)
Contributed surplus as at December 31, 2008	988
Stock based compensation adjustments	(79)
Return of prior period distributions	45
Cancellation of returned shares	725
Contributed surplus as at December 31, 2009	1,679

d) Convertible debentures – equity portion

The equity portion of the Debentures was recorded on the initial recognition of the Debentures issued in November 2007. The equity portion will be reclassified to Shareholder's capital on a pro-rata basis as the Debentures are exercised.

Note 13. Capital Disclosures

Newalta's capital structure currently consists of:

	2009	2008
Amount drawn on credit facility	191,280	264,687
Letters of Credit or bonds issued as financial security to third parties ("Surety Bonds")	42,283	64,457
Convertible debentures, debt portion	110,708	109,419
Shareholders' equity	540,000	500,849
	884,271	939,412

The objectives in managing the capital structure are to:

- Utilize an appropriate amount of leverage to maximize return on Shareholders' equity, and
- To provide for borrowing capacity and financial flexibility to support Newalta's operations.

Management and the Board of Directors review and assess Newalta's capital structure and dividend/distribution policy at least at each regularly scheduled board meeting which are held at a minimum four times annually. The financial strategy may be adjusted based on the current outlook of the underlying business, the capital requirements to fund growth initiatives and the state of the debt and equity capital markets. In order to maintain or adjust the capital structure, Newalta may:

- Issue shares from treasury
- Issue new debt securities
- Cause the return of letters of credit with no additional financial security requirements
- Replace outstanding letters of credit with bonds or other types of financial security
- Amend, revise, renew or extend the terms of its then existing long-term debt facilities
- Enter into new agreements establishing new credit facilities
- Adjust the amount of dividends paid to shareholders, and/or
- Sell idle, redundant or non-core assets.

Management monitors the capital structure based on measures required pursuant to the Credit Facility agreement which restricts Newalta from declaring dividends and distributing cash if the Corporation is in breach of a covenant under the Credit Facility. These measures include:

Ratio	December 31, 2009	December 31, 2008	Threshold
Current ⁽¹⁾	1.34:1	1.34:1	1.10:1 minimum
Funded Debt ⁽²⁾ to EBITDA ^{(3) (4)}	2.60:1	2.46:1	3.50:1 maximum
Fixed Charge Coverage ⁽⁵⁾	2.24:1	1.19:1	1.00:1 minimum

(1) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt and capital leases outstanding, if any).

(2) Funded Debt is a non-GAAP measure, the closest measure of which is long-term senior debt. Funded Debt is generally defined as long-term debt and capital leases including any current portion thereof but excluding future income taxes and future site restoration costs. Funded Debt is calculated by adding the senior long-term debt to the amount of letters of credit outstanding at the reporting date. In calculating Funded Debt, Letters of Credit returned after the end of a fiscal quarter but prior to the date that is 45 days following the end of the first, second or third interim period (90 days following the end of the annual period) are excluded.

(3) EBITDA is a non-GAAP measure, the closest measure of which is net earnings. For the purpose of calculating the covenant, EBITDA is defined as the trailing twelve-months consolidated net income for Newalta before the deduction of interest, taxes, depreciation and amortization, and non-cash items (such as non-cash stock-based compensation and gains or losses on asset dispositions). Additionally, EBITDA is normalized for any acquisitions completed during that time frame and excludes any dispositions incurred as if they had occurred at the beginning of the trailing twelve-months.

(4) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing twelve-months. . On April 22, 2009, the Funded Debt to EBITDA covenant restriction under the Credit Facility was amended from 3.00:1 to 3.50:1 for the remainder of 2009. The ratio will be 3.00:1 commencing Q1 2010.

(5) Fixed Charge Coverage Ratio means, based on the trailing twelve month period, EBITDA less unfinanced capital expenditures and cash taxes to the sum of the aggregate of principal payments (including amounts under capital leases, if any), interest (excluding accretion for the convertible debentures), dividends paid for such period, other than cash payments in respect of a dividend reinvestment plan, if any. Unlike the Funded Debt to EBITDA ratio, the Fixed Charge Coverage ratio trailing twelve month EBITDA is not normalized for acquisitions or dispositions.

Note 14. Long-Term Incentive Plans

a) The 2008 Option Plan

On January 2, 2009 a total of 842,500 options were granted to certain directors, officers and employees of the Corporation. The options were granted at the market price of \$5.31 per share. A further 12,500 options were granted to a director of the Corporation on May 21, 2009 at an exercise price of \$3.81 per share, with an additional 12,500 options being granted to a director of the Corporation on July 1, 2009 at an exercise price of \$5.40 per share. On October 6, 2009, 20,000 options were granted to an employee at an exercise price of \$7.65 per share. Each tranche of the options vest over a four year period (with a five year life), and the holder of the option can exercise the option for either a share of Newalta Inc. or an amount of cash equal to the difference between the exercise price and the market price at the time of exercise. The options granted under the 2008 Plan have therefore been accounted for as stock appreciation options. The total compensation expense for these options was \$1.2 million for the year ended December 31, 2009 (nil in 2008).

b) The 2006 Option Plans

The options granted under the 2006 Plan have been accounted for as stock appreciation options and the total compensation expense for these options was nil for the year ended December 31, 2009 (nil for 2008). During 2009, an aggregate of 1,810,050 options to acquire common shares were cancelled.

	2008 Options (000s)	Weighted Average Exercise Price (\$/share)	2006 Options (000s)	Weighted Average Exercise Price (\$/share)	2003 Options (000s)	Weighted Average Exercise Price (\$/share)
At December 31, 2007	-	-	1,440	27.47	823	19.29
Granted	-	-	960	17.86	-	-
Exercised	-	-	-	-	(209)	9.31
Forfeited	-	-	(117)	27.84	(4)	25.95
At December 31, 2008	-	-	2,283	23.41	610	22.65
Granted	887	5.34	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Cancelled	-	-	(1,565)	26.38	(245)	25.12
At December 31, 2009	887	5.34	718	16.95	365	21.00
Exercisable at December 31, 2009	25	5.31	215	17.80	319	20.67

Range of Exercise Prices (\$/share)	Options Outstanding December 31, 2009 (000s)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (\$/share)	Options Exercisable December 31, 2009 (000s)	Weighted Average Exercise Price (\$/share)
3.81 – 9.30	897	4.1	5.39	35	6.43
14.00 – 19.46	814	3.1	16.72	317	17.10
22.75 – 32.38	259	2.5	23.66	207	23.71
	1,970	3.4	12.47	559	18.88

c) Share Appreciation Rights

On January 2, 2009, 791,500 share appreciation rights were granted to certain employees and an officer of the Corporation at the market price of \$5.31. On November 16, 2009, a total of 20,000 share appreciation rights were granted to certain employees at the market price of \$7.74. Each tranche of these rights vests over a four year period (with a five year life). The holder of the right has the option to exercise the right for an amount of cash equal to the difference between the exercise price and the market price at the time of exercise. The rights granted have been accounted for as stock appreciation rights. Total compensation expense for these rights was \$1.1 million for the year ended December 31, 2009 (nil in 2008). During 2009, an aggregate of 503,500 share appreciation rights were cancelled.

d) Other Long-Term Liabilities

Other long-term liabilities consist of non-current obligations under the Corporation's long-term incentive plans as at December 31, 2009 (\$nil as at December 31, 2008).

Note 15. Earnings Per Share

Basic earnings per share calculations for the year ended December 31, 2009 and 2008 were based on the weighted average number of shares outstanding for the periods. Diluted earnings per share include the potential dilution of the outstanding options to acquire shares and from the conversion of the Debentures.

The calculation of diluted earnings per share does not include anti-dilutive options. These options would not be exercised during the period because their exercise price is higher than the average market price for the period. The number of excluded options for 2009 was 1,957,700 (2,772,500 in 2008).

The diluted earnings per share calculation does not include the impact of anti-dilutive Debentures. These debentures would not be converted to shares during the period because the current period interest (net of tax) per share obtainable on conversion exceeds basic earnings per share. The number of shares issuable on conversion of the Debentures excluded for 2009 was 5,000,000 (5,000,000 in 2008).

(000s)	Year ended December 31,	
	2009	2008
Weighted average number of shares	43,536	41,935
Net additional shares if options exercised	-	-
Net additional shares if debentures converted	-	-
Diluted weighted average number of shares	43,536	41,935

Note 16. Shareholder Dividends/Distributions Declared and Paid

a) Dividends

During the year ended December 31, 2009, Newalta declared quarterly dividends of \$0.05 per share.

b) Distributions

Prior to conversion to a corporation on December 31, 2008, the Fund made monthly distributions to its holders of trust units. Determination of the amount of cash distributions for any period was at the sole discretion of the Board of Trustees of the Fund and was based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Fund. Distributions were declared to holders of trust units of record on the last business day of each month, and paid on the 15th day of the month following (or if such day was not a business day, the next following business day).

	Year ended December 31, 2008
Unitholder distributions declared	93,180
per unit – \$	2.220
Unitholder distributions – paid in cash	82,093
Unitholder distributions – value paid in units	10,914
paid in cash – per unit \$	1.958
issued units – per unit \$	0.260

Note 17. Commitments

a) Debt and Lease Commitments

Newalta has annual commitments for senior long-term debt, Debentures, leased property and equipment and short term amounts payable as follows:

	2010	2011	2012	2013	2014	Thereafter	Total
Amount drawn on credit facility ⁽¹⁾ (Note 8)	-	191,280	-	-	-	-	191,280
Convertible debentures (Note 9)	8,050	8,050	122,379	-	-	-	138,479
Total debt commitments	8,050	199,330	122,379	-	-	-	329,759
Office leases	7,973	7,445	7,250	7,278	6,977	34,940	71,863
Operating leases	10,692	8,296	4,486	1,181	257	-	24,912
Surface leases	1,092	1,112	1,133	533	267	-	4,137
Accounts payable and accrued liabilities	90,191	-	-	-	-	-	90,191
Dividends payable	2,423	-	-	-	-	-	2,423
Total debt and other commitments	120,421	216,183	135,248	8,992	7,501	34,940	523,285

(1) Gross of transaction costs. Interest payments are not reflected.

b) Letters of Credit and Surety Bonds

As at December 31, 2009, Newalta had issued letters of credit and surety bonds in respect of compliance with environmental licenses in the amount of \$22.1 million and \$20.2 million respectively.

Note 18. Financial Instruments

a) Fair Value of Financial Assets and Liabilities

Newalta's financial instruments include accounts receivable, note receivable, accounts payable and accrued liabilities, dividends/distributions payable, senior long-term debt and debentures. The fair values of Newalta's financial instruments that are included in the consolidated balance sheet, with the exception of the debentures, approximate their recorded amount due to the short term nature of those instruments for accounts receivable, accounts payable and accrued liabilities and for senior long-term debt and the note receivable due to the floating nature of the interest rate applicable to these instruments. The fair values incorporate an assessment of credit risk. The carrying values of Newalta's financial instruments at December 31, 2009 are as follows:

	Held for Trading	Loans and Receivables	Available for Sale	Other Liabilities	Total Carrying Value
Accounts receivable	-	84,317	-	-	84,317
Note receivable	-	978	-	-	978
Accounts payable and accrued liabilities	-	-	-	90,191	90,191
Dividends payable	-	-	-	2,423	2,423
Amount drawn on credit facility	-	-	-	191,280	191,280

The fair value of the Debentures is based on the closing trading price on the Toronto Stock Exchange as follows:

	December 31, 2009	
	Carrying Value ⁽¹⁾	Quoted Fair Value
7% Convertible debentures due November 30, 2012	112,558	116,438

(1) Includes both the debt and equity portions.

b) Financial Instrument Risk Management

Credit risk and economic dependence

Newalta is subject to credit risk on its trade accounts receivable balances. The customer base is large and diverse and no single customer balance exceeds 11% of total accounts receivable. Newalta views the credit risks on these amounts as normal for the industry. Credit risk is minimized by Newalta's broad customer base and diverse product lines and is mitigated by the ongoing assessment of the credit worthiness of its customers as well as monitoring the amount and age of balances outstanding.

Revenue from Newalta's largest customer was \$63.8 million for the year ended December 31, 2009 (\$37.5 million in 2008) representing 13% of revenue (2008 – 6%). This revenue is recognized within our Eastern segment.

Based on the nature of its operations, established collection history, and industry norms, receivables are not considered past due until 90 days after invoice date although standard payment terms require payment within 30 to 120 days. Depending on the nature of the service and/or product, customers may be provided with extended payment terms while Newalta gathers certain processing or disposal data. Included in the Corporation's trade receivable balance, are receivables totalling \$0.8 million which are considered to be outstanding beyond normal repayment terms at December 31, 2009. A provision of \$0.8 million has been established as an allowance for doubtful accounts. No additional provision has been made as there has not been a significant change in credit quality and the amounts are still considered collectible. Newalta does not hold any collateral over these balances.

Aging	Trade Receivables Aged by Invoice Date		Allowance for Doubtful Accounts		Net Receivables	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Current	53,981	58,049	13	9	53,968	58,040
31-60 days	15,454	28,953	21	7	15,433	28,946
61-90 days	3,159	6,608	65	52	3,094	6,556
91 days +	791	6,503	725	1,465	66	5,038
Total	73,385	100,113	824	1,533	72,561	98,580

To determine the recoverability of a trade receivable, management analyzes accounts receivable, first identifying customer groups that represent minimal risk (large oil and gas and other low risk large companies, governments and municipalities). Impairment of the remaining accounts is determined by identifying specific accounts that are at risk, and then by applying a formula based on aging to the remaining amounts receivable. All amounts identified as impaired are provided for in an allowance for doubtful accounts. The changes in this account for 2009 are as follows:

Allowance for doubtful accounts	2009	2008
Balance, beginning of year	1,533	2,263
Additional amounts provided for	922	1,502
Amounts written off as uncollectible	(1,631)	(2,232)
Balance, end of year	824	1,533

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors of Newalta Inc., which has built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity management requirements. Management mitigates liquidity risk by maintaining adequate reserves, banking facilities and other borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. See Note 17 for maturity analysis.

Interest rate risk

Newalta is exposed to interest rate risk to the extent that its credit facility has a variable interest rate. Management does not enter into any derivative contracts to manage the exposure to variable interest rates. The Debentures have a fixed interest rate until November 30, 2012, at which point, any remaining Debentures will need to be repaid or refinanced. The table below provides an interest rate sensitivity analysis for the year ended December 31, 2009:

	Net Earnings
If interest rates increased by 1% with all other variables held constant	(1,891)

Market risk

Market risk is the risk that the fair value or future cash flows of Newalta's financial instruments will fluctuate because of changes in market prices. Newalta is exposed to foreign exchange market risk. Foreign exchange risk refers to the risk that the value of a financial commitment, recognized asset or liability will fluctuate due to changes in foreign currency exchange rates. The risk arises primarily from U.S. dollar denominated long-term debt and working capital. As at December 31, 2009, Newalta had \$24.6 million in working capital and \$15.0 million in long-term debt denominated in U.S. dollars. Management has not entered into any financial derivatives to manage the risk for the foreign currency exposure as at December 31, 2009.

The table below provides a foreign currency sensitivity analysis on long-term debt and working capital outstanding as at December 31, 2009:

	Net Earnings
If the value of the U.S. dollar increased by \$0.01 with all other variables held constant	71

Note 19. Cash Flow Statement Information

The following tables provide supplemental information.

	2009	2008
Changes in current assets	33,563	32,789
Changes in accounts payable and accrued liabilities	(24,644)	1,787
Dividends/distributions payable	5,137	102
Stock based compensation, foreign exchange and other	(3,168)	2,463
Changes in capital asset accruals	12,711	(4,494)
Total increase in non-cash working capital	23,599	32,647
Foreign exchange	2,354	(3,509)
Accretion of convertible debentures	1,289	1,083
Amortization of deferred financing charges	1,834	463
Other	(382)	(648)
Total other items not requiring cash	5,095	(2,611)
Cash additions to capital assets during the year	(26,941)	(121,966)
Changes in capital asset accruals	(12,711)	4,494
Total cash additions to capital assets	(39,652)	(117,472)

NOTE 20. Comparative Figures

Cash Flow Statements

2008 comparative information reflects the presentation of the change in deferred revenue as a decrease (increase) in non-cash working capital on the Cash Flow statements. In previous periods such items were classified as other.

Note 21. Segmented Information

Newalta has two reportable segments. The reportable segments are distinct strategic business units whose operating results are regularly reviewed by the Corporation's executive officers in order to assess financial performance and make resource allocation decisions. The reportable segments have separate operating management and operate in distinct competitive and regulatory environments. The Western segment recovers and resells crude oil from oilfield waste, rents drill cuttings management and solids control equipment, provides environmental services comprised of environmental projects and drilling waste management, collects liquid and semi-solid industrial wastes as well as automotive wastes, including waste lubricating oil, and provides mobile site services in western Canada. The Eastern segment provides industrial waste collection, pre-treating, transfer, processing and disposal services and operates a fleet of specialized vehicles and equipment for waste transport and onsite processing, a lead recycling facility and an emergency response service in central and eastern Canada. Recovered materials both segments are processed into resalable products. The accounting policies of the segments are the same as those of Newalta.

	For the year ended December 31, 2009				Consolidated Total
	Western	Eastern	Inter- segment	Unallocated ⁽³⁾	
External revenue	248,094	235,307	-	-	483,401
Inter segment revenue ⁽¹⁾	1,203	-	(1,203)	-	-
Operating expense	163,675	184,876	(1,203)	-	347,348
Amortization and accretion expense	22,420	16,915	-	12,490	51,825
Net margin	63,202	33,516	-	(12,490)	84,228
Selling, general and administrative	-	-	-	56,132	56,132
Finance charges	-	-	-	25,364	25,364
Earnings before taxes	63,202	33,516	-	(93,986)	2,732
Capital expenditures and acquisitions ⁽²⁾	10,391	13,578	-	3,316	27,285
Goodwill	62,280	41,317	-	-	103,597
Total assets	510,518	410,030	-	73,182	993,730

	For the year ended December 31, 2008				Consolidated Total
	Western	Eastern	Inter- segment	Unallocated ⁽³⁾	
External revenue	356,146	240,809	-	80	597,035
Inter segment revenue ⁽¹⁾	919	-	(919)	-	-
Operating expense	229,423	180,569	(919)	-	409,073
Amortization and accretion expense	21,614	18,718	-	10,905	51,237
Net margin	106,028	41,522	-	(10,825)	136,725
Selling, general and administrative	-	-	-	62,129	62,129
Finance charges	-	-	-	24,104	24,104
Earnings before taxes	106,028	41,522	-	(97,058)	50,492
Capital expenditures and acquisitions ⁽²⁾	63,799	44,967	-	16,436	125,202
Goodwill	62,280	41,317	-	-	103,597
Total assets	552,132	425,233	-	74,545	1,051,910

(1) Inter-segment revenue is recorded at market, less the costs of serving external customers.

(2) Includes capital asset additions and the purchase price of acquisitions.

(3) Management does not allocate selling, general and administrative, taxes, and interest costs in the segment analysis.

Corporate Information

OFFICERS

Alan P. Cadotte
President and Chief Executive Officer

Peter A. Dugandzic
Executive Vice President

Ronald L. Sifton
Executive Vice President

J. Craig Wilkie
Executive Vice President

Michael A. Borys
Senior Vice President and
Chief Financial Officer

Terry P. Donaleshen
Senior Vice President,
Organization Development

Took Whiteley⁶
Senior Vice President, Business
Development and General Counsel

Jim McClimans
Vice President, Finance

Doug Pecharsky
Vice President, Western Onsite

Harry Wells
Vice President, Technical Development

DIRECTORS

Alan P. Cadotte

Robert M. MacDonald^{1, 4}

R. Vance Milligan, Q.C.^{1, 3}

R.H. (Dick) Pinder^{1, 3}

Gordon E. Pridham^{2, 4}

Susan Riddell Rose^{2, 4}

Tom Ryley^{3, 4}

Ronald L. Sifton

Barry D. Stewart^{2, 5}

1. Audit Committee

2. Compensation Committee

3. Corporate Governance and Nominating Committee

4. Environment, Health and Safety Committee

5. Chairman of the Board

6. Corporate Secretary

INVESTOR RELATIONS

Anne M. MacMicken
Executive Director, Investor Relations
Tel: 403.806.7019
Fax: 403.806.7031
amacmicken@newalta.com

STOCK EXCHANGE

Toronto Stock Exchange

Symbol: NAL / NAL.DB

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

BANKERS

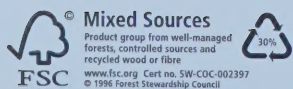
Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto Dominion Bank
Alberta Treasury Branches
National Bank of Canada

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

NOTICE OF ANNUAL AND SPECIAL MEETING

Wednesday, May 12, 2010 at 2:00 pm (MT)
Newalta's corporate office
220 – 12th Avenue SW
Calgary, Alberta



NEWALTA

211 – 11th Avenue S.W.
Calgary, AB T2R 0C6
Tel: 403.806.7000
Fax: 403.806.7348

newalta.com